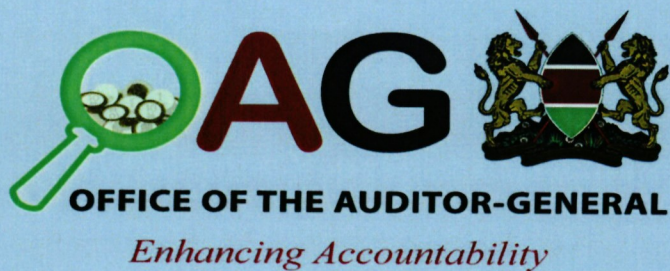


REPUBLIC OF KENYA



# REPORT

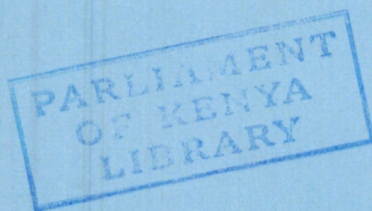
OF

THE AUDITOR-GENERAL

ON

**KENYA LEATHER DEVELOPMENT  
COUNCIL**

**FOR THE YEAR ENDED  
30 JUNE, 2020**



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| THE NATIONAL ASSEMBLY<br>PAPERS LAID                                              |                                                                                     |
| DATE: 22 MAR 2022                                                                 | DAY: TUESDAY                                                                        |
| TABLED BY: MAJORITY LEADER                                                        |                                                                                     |
| CLERK FOR THE TABLE:                                                              |  |



10/10/10





# **KENYA LEATHER DEVELOPMENT COUNCIL**

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## **ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE PERIOD ENDED 30<sup>TH</sup> JUNE, 2020**

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**Prepared in accordance with the Accrual Basis of Accounting Method under the International Public Sector  
Accounting Standards (IPSAS)**

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## KEY COUNCIL INFORMATION AND MANAGEMENT

### (a) Background information

The Kenya Leather Development Council (KLDC) is a State Corporation established by the Government of Kenya under the Kenya Leather Development Council Order, 2011 (Legal Notice No. 114 of the Kenya Gazette supplement No. 113 of 9<sup>th</sup> September 2011, under the State Corporation Act (Cap 446), laws of Kenya. The Council was instated as a specialized agency to drive the Government's agenda on the development of leather industry. To achieve this, the Council is expected to regulate and facilitate the growth of the industry. The principle mandate of the KLDC is to drive the transformation of the leather value chain in the Country from a raw material/semi-processed export driven sector to a finished leather product manufacturing industry. KLDC is therefore a key driver of the "Big Four" Agenda under the Manufacturing Pillar. The roadmap to this success is embedded on strategic objectives which specifically address the key challenges facing it. The strategic objectives are aligned to the Council's mandate.

### (b) Principal Activities

The principal activity/mission of the Council is to:

- i) To provide advisory services to the Cabinet Secretary on matters relating to processing of and trade in hides, skins, leather and leather goods for planning purpose;
- ii) To promote, direct, coordinate, regulate, and harmonize all activities in the leather subsector;
- iii) To oversee licensing in the leather subsectors;
- iv) To undertake research and development activities in the leather industry;
- v) To Enforce compliance with set standards in collaboration with other relevant institutions in the industry.
- vi) To Mobilize technical and financial support for the leather subsector.
- vii) To Collect, store, analyze, and disseminate data on leather.
- viii) To Perform any other function, as the Cabinet Secretary may consider necessary.

### (c) Key Management

The Council's day-to-day Management was under the following key organs:

1. Board of the Council
2. Chief Executive Officer and
3. The Secretariat

### (d) Fiduciary Management

The Key Management Personnel who held office during the financial year ended 30<sup>th</sup> June 2020 and who had direct fiduciary responsibility are:

| Designation                     | Name                       |
|---------------------------------|----------------------------|
| 1. Chief Executive Officer      | Dr. Issack M. Noor, PhD    |
| 2. Director, Technical Services | Mr. Charles Ndungu         |
| 3. Director, Corporate Services | Mr. Mohammednoor A. Isacko |
| 4. Manager, Finance & Accounts  | CPA Mohamed Khalif         |

**(e) Fiduciary Oversight Arrangements**

The Board of Director are the governing body for the Council providing oversight functions. In discharging its duties, the Board delegates its role to the various committee: finance and Governance, Human Resource, Risk and Compliance, Technical and Strategy and Audit. The resolutions of the board are implemented by the Management.

**(f) COUNCIL BANKER**

Kenya Commercial Bank  
P.O.Box 14959- 00800  
NAIROBI, KENYA

**(g) COUNCIL CONTACT**

Telephone: +254 0204442321  
Cell-Phone: 0737711549/0704617705  
Email: <http://www.leathercouncil.go.ke>

**(h) REGISTERED OFFICE**

Kenya Leather Development Council  
P.O. Box 14480-00800  
CPA Centre 5th Floor  
Thika Super Highway  
NAIROBI-KENYA.

**(i) INDEPENDENT AUDITORS**

Auditor General  
Office of the Auditor General  
Anniversary Towers, University Way  
P.O. Box 30084-00100  
NAIROBI, KENYA.

**(j) PRINCIPAL LEGAL ADVISOR**

The Attorney General  
State Law Office  
Harambee Avenue  
P.O. Box 40112 -00200  
NAIROBI, KENYA



## BOARD OF DIRECTORS OF THE COUNCIL

### Name

### Key Professional/Academic Qualification

1.



**Mr Abdi Bare Duale**  
**Chairman**

Mr Abdi is the Chairman of Kenya Leather Development Council. He is an experienced business executive with vast knowledge in starting up and running successful enterprises. Abdi is a trained entrepreneur with an MBA (International Trade) from Edith Cowan University, Australia. He has many business interests and is currently the Managing Director of Medina Chemicals Limited and the Executive Chairman of Nomad Palace Hotel Limited. Abdi previously served as a Board Member for Kenya Revenue Authority, Kenya Bureau of Standards and Nerix Pharma Limited.

2.



**Anne Rimbaine Lengerded**  
**Member**

Anne was born in 1969; she is a MCIPS (Member Chartered Institute of Purchasing & Supplies- Professional stage. She holds Masters on Public Policy & Analysis JKUAT and Bachelors of Commerce (finance option) Kenyatta University; she was a Board Member at Pastoralist Development Network, Tele Posta Sacco and various learning institutions. She got wide experience in Procurement matters.

3.



**Mr Henry Mutwiri**  
**Rep. PS National Treasury**

Mr Mutwiri was born in 1971; he has 22 years' work experience in finance related office. He holds a Degree in BBA, MBA-Finance, and Post-Graduate-Diploma in Financial Management and professional Diploma in Public Procurement.



4.



**Mr Elias Kipkemei Busienei**  
**Member**

Mr. Busienei was born in 1973; he holds MBA (Executive)-aviation option Moi University, has wide experience in Flight Operations Kenya.

5.



**Mr Mark Stephenson**  
**Member**

Mr. Stephenson is the Director Sand storm Company Kenya, which started out making luxury safari tents in 2002. Today it makes East Africa's finest bags and accessories from canvas and leather.

6.



**Mr Raphael Letimalo**  
**Member**

Mr. Letimalo was born in 1957 he holds a Bachelor of Arts degree in Peace Study and Conflict Resolution 1<sup>st</sup> class honors. He was a Member of Parliament 2007-2017 and District Officer 1988-2007.

7.



**Ms Amina Mohamed Wario**  
**Member**

Ms Amina is a community leader on women empowerment, mentoring youth in creating awareness in and after school program, advocating for community membership in education and health care. 2013-2017 Was a nominated member of County Assembly of Nairobi. 2008-2013 Was a nominated councilor Embakasi-Nairobi. 2003-2007- Was chairlady of Embakasi Sub-Branch (KANU). 1989-1997- KANU Chairlad Embakasi ward (Maendeleo ya Wanawake). 1986-1989- Village representative Kware/Mukuru Kwa Njenga ward.

8.



**Mr Simon Atebe  
Rep PS, State Dept. of  
Industrialization**

Mr Atebe works as Assistant Director Ministry of Industry Trade and Enterprise Development "between" 2013 to 2018. In the year 2018, he became Deputy Director Ministry of Industry Trade and Enterprise Development. He is currently the acting Director at the Directorate of Agro-Industries.

9.



**M/s Elizabeth Kamau  
Member**

M/s Elizabeth is a fashion and interior Designer with many years and wide experience in Kenya and East Africa. She is also a business person.

10.



**Mr. Stephen Karume  
Member**

Mr. Karume joined KLDC Board on 20<sup>th</sup> Sep 2018. He has a Bachelor Degree in Arts (Majoring in Economics) from Moi University and holds an Executive Masters in Business Administration (Entrepreneurship). He worked as Head of Trade Development at East African Breweries Ltd from 2001 to 2014. 1993 -2001 he worked for Dawa Pharmaceuticals Ltd. 1991-1993 he worked for Car & General as a sales man covering Nairobi region.

11.



**Dr. Issack M. Noor  
Secretary/Chief Executive  
Officer**

Dr. Noor is 59 years old, he holds a PhD in Live Stock Production Systems, Egerton University, (2013), MSc (Animal Production), University of Nairobi, (2009), BSc (Animal Health) Egerton University (1995) and a Certificate (Animal Health) Ahiti- Nyahururu, (1990). He has over 35 years of public service experience with veterinary department, teaching, research, and administration.



## MANAGEMENT TEAM

No. Name

### Key Academic & Professional Qualification

1.



**Dr. Issack M. Noor, PhD**  
**Chief Executive Officer**

Dr. Noor is 59 years old, he holds a PhD in Livestock Production Systems, Egerton University, (2013), MSc (Animal Production), University of Nairobi, (2009), BSc (Animal Health) Egerton University (1995) and a Certificate (Animal Health) Ahiti- Nyahururu, (1990). He has over 35 years of public service experience with veterinary department, teaching, research, and administration.

2.



**Mr Charles M. Ndungu**  
**Director Technical Services**

Mr. Ndungu is 56 years old and holds a BSc Leather Technology degree (2004), Certificate in Hides and Skins Improvement (1981). He has attended courses in Cluster Management, Leather Finishing, and Business Incubation.

3.



**Mr. Mohammednoor A. Isacko**  
**Director Corporate Service**

Isacko has a wealth of HR professional experience spanning over 14 years in various organisations, including County Public Service Board of Marsabit as Board Secretary/Chief Executive Officer, Kenya Meat Commission as Chief Human Resource & Administration Manager. Isacko has held various portfolio as Human Resources Officer in various organization.

A Human Resource Professional with vast experience in management, Isacko holds Masters in Business Administration from the University of Nairobi and a Bachelor of Commerce (Human Resource Management) from the same university. He holds higher national diploma from Institute of Human Resource Management and Diploma in Public Administration from Institute of Galilee (Israel).



4.



**Ms Njeri Chege**  
**Corporation Secretary /Head of Legal**

Ms. Chege holds a Bachelor of Laws (LL.B) (Hons) degree from the U.O.N (Parklands)2003, and a post graduate diploma from the Kenya School of Law. She is an Advocate of the High Court of Kenya, with over fifteen (15) years of experience in the legal field and a member of the Law Society of Kenya. She is a Certified Public Accountant of Kenya C.P.A (K) and Certified Public Secretary of Kenya CPS(K).

She is passionate about the rule of law and prudent management of public resources and sound public governance policies.

5.



**Mr. Paul M. Ephantus**  
**Manager Capacity Building**

Is the former Employee of State Department of Livestock as an Assistant Director, Leather Development and Acting Deputy Director.

BSc. (Hons.) Materials Technology (Leather) from the University of Northampton (UK) and MSc. Environmental Legislation and Management -ongoing He is a Visionary, Strategic and Transformative Leader and an expert in formulating Environmental and Leather Policies, Developing Leather Strategies and Enacting Environmental Legislations.

He is the founder & chairman of Kenya Association of Leather Technologist and Scientists (KALTS), a professional body for Leather Development Professionals.

6.



**CPA Mohamed Khalif**  
**Manager, Finance and Accounts**

PhD Candidate (JKUAT), MBA (Finance) –MKU, BBM (Finance & Banking)–Moi University, CPA (K) and SMC- KSG.

Professional Accountant with over 10 years' experience in finance, Accounting, auditing and assurance in both Public and Private Sectors.

7.



**Mr Onyango G.J**  
**Monitoring & Evaluation**  
**Officer**

Mr Onyango is the Head of Monitoring and evaluation. He is aged 56 and holds a Diploma in Leather Technology. He has attended courses in Integrity Workshop, Strategic Planning Workshop, ISO Certification, Disability Mainstreaming, and Gender Mainstreaming. He was project co-coordinator for UNOPS.

8.



**Mr. Patrick Nyadimo**  
**Principal Human Resource**  
**Management Officer**

Mr Nyadimo is the Head of Human Resource he is 56 years old, he holds a BBA in Human Resource and has a Diploma in Personnel Management. He has attended courses in Integrity Workshop, HIV/AIDS Sensitization and Voluntary Testing, ISO Certification, Disability Mainstreaming and Gender Mainstreaming.

9.



**Mr. Peter Arakawa**  
**Senior Corporate**  
**Communication Officer**

MBA (Marketing)-KU, B.A (PR)- UON, Advanced Professional Diploma in PR- Chartered Institute of Public Relations and Certificate in Kenya Sign Language- Kenya Institute of Special Education (KISE). I also hold Honors & Awards form Mandela Washington Fellow

He is a seasoned Communications/Media professional who has an in-depth understanding of communication as an unavoidable day-to-day activity and well versed with media operations and management.

10.



**Ms. Diana Iropia**  
**Senior ICT Officer**

Msc Distributed Computing Technology; UON-ongoing, B.Sc. Information Sciences- Moi University and CCNA.

She has in depth knowledge and experience in Information Management Systems Administration, Managing Operating Systems Softwares, Networks and Database Administration, Hardware and Software Maintenance, and Support.



11.



**Mr. Erick Rithaa Kinoti**  
**Principal Supply chain**  
**management Officer**

Eric is the head of procurement and supply chain management function at the Kenya Leather Development Council. A seasoned professional in supply chain management and governance in both public and private sector.

He is a finalist Master of business administration and a bachelor of commerce degree (procurement and supply chain Management) holder, with CPA part II certification. He is a full member of the Kenya Institute of Supplies Management (MKISM).

## **CHAIRMAN'S STATEMENT**

### **INTRODUCTION**

The leather industry is a priority sector for industrialization under the 'Big Four agenda. This puts Kenya Leather Development Council (KLDC) in a position to drive the sector growth. This shift is of utmost significance as it demonstrates the immense focus of the Government towards promotion of the manufacturing economy as a critical sector in the creation of jobs and improvement of livelihood for Kenyan People. The leather sector presents opportunity for the creation of jobs and subsequent increase in Kenya's Gross Domestic Product (GDP) through increased value addition efforts in the leather value chain.

The Board and the management are committed to ensuring the Council plays its role as a regulator and drives Kenya towards becoming a leather manufacturing hub. This will enable the country to achieve its goals of creating jobs, improving the national economy and addressing its balance of trade aimed towards a better quality of life for Kenyans.

The Council appreciates the fact that for the sector to grow and realize its full potential, this cannot be done by a single agency and therefore, appreciates the support given by the Parent Ministry, The National Treasury, other Government departments and agencies.

### **CORE MANDATE**

KLDC has in the past year segmented critical partnerships that will enable it to deliver its mandate. One significant achievement has been the execution of the Memorandum of Understanding (MOU) between the Council and the Nairobi City County Government, which will assist to actualize the Kariokor Common Manufacturing Facility (CMF).

The Kariokor CMF is expected to bolster local footwear and leather goods competitiveness. The CMF will incubate micro-small-medium enterprises (MSMEs), leveraging on the affordable access to technologically advanced machines provided by KLDC and affordable capital to gain autonomy in 2-3 years. It is the vision of the Board of Directors (B.O.D) to replicate this model across the country to promote the development of competitive and sustainable Micro and Small Enterprises MSEs. MSEs occupy a very strategic position in development of the Country generally and the leather sector as they cut across the entire region and have been identified as major contributors to employment creation and income generation. The leather manufacturing clusters with the potential to expand include those domiciled in Nakuru, Eldoret, Kisumu, and Malindi.

The strategic partnership with the Export Processing Zones Authority (EPZA) which was first formalized by execution of a Memorandum of Understanding in December, 2015, to undertake development of the Kenya Leather Industrial Park (KLIP), has been elucidated with the approval of the First Amendment to the M.O.U. The consensus built by the Board of Directors of both organizations and codified in the First Amendment will resolve ambiguous spheres in the joint engagement which had impeded the implementation of the (KLIP). I am pleased to report that the contractor of the dual 10MLD and 2.5 MLD Common Effluent Treatment Plant (CETP) which is an important infrastructural incentive for tanneries has undertaken to complete construction within the Financial Year 2020/2021. KLDC is also at an advanced stage of planning the development of industrial sheds to cater for other industry players. Multi-components of the KLIP will also be implemented by other Government Agencies in charge of roads, water, electric power and ICT. The collaborative engagements with this Enablers are all at an advanced stage. The vision of the Board of



KLDC is to oversee the development of similar Leather Parks in strategic parts of the Country that will ensure access to all Kenyans in the future.

In this financial year vide Executive Order 1, Revised May, 2020 KLDC was transferred to the docket of the Ministry of Agriculture, Livestock, Fisheries and Co-operatives. This will enable KLDC to advocate even better and undertake collaborative programs with regard to the improvement of Hides & Skins quality. This has been a major challenge in achieving internationally competitive leather and leather products. Our position is that KLDC whose mandate is the leather sector development and promotion of the leather value chain must integrate improvement of quality of hides & skins in its strategic objectives. The outreach for the program is in collaboration with the Council of Governors and the Department of Veterinary Services, the scope is nationwide with an initial pilot of ten (10) counties selected based on the livestock populations and consumption.

KLDC is on track, however the COVID-19 pandemic did impact operations in the 4<sup>th</sup> quarter. The Board has instructed Management to re-align the Council's programs and projects and develop new methodologies to the new circumstances to ensure continuity.

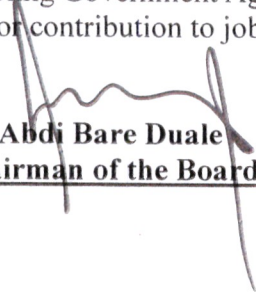
### **GOOD GOVERNANCE & HUMAN RESOURCE CAPITAL**

In the past two years KLDC has undergone a transformation that has seen the capacity of the Council broadened. In the financial year 2019/2020 the Council recruited forty-one (41) additional high-calibre staff members whose input is already visible in the output of KLDC in the year. The recruitment includes an investment on the Human Resource Capital at the Training and Production Centre for Shoe Industry (TPCSI) which is to be rehabilitated and relaunched into a vital institution. The Board has overseen and ensured that the recruitment represents the *face of Kenya* by ensuring regional balance. Our headquarter offices have expanded to the sixth floor at the CPA Centre to cater for the growing needs of the Organization.

The Board of Directors in exercising its oversight role have remained committed to good corporate governance and ethical practices, promoting sustainable National interest in the leather sector. The Board has adhered to all enabling laws and the guidelines contained in Mwongozo to ensure that it discharges its responsibilities effectively.

In recognising that the combined forces of public, private and civil players are necessary to achieve the required scale and impact in the leather sector, the Council has developed the Kenya National Leather Policy which is to be finalized and validated in the first half of the next financial year. The Policy will provide a comprehensive structured course of action to elevate the industry and to ensure collaboration with all industry stakeholders.

On behalf of the Board of Directors, we also recognize the improved trajectory of Management's performance and congratulate them on the milestones and achievements in the financial year 2019/2020. We recognize their dedication and hard work. We fully appreciate the continuing commitment and support extended to KLDC by the National Government and our partners and enabling Government Agencies and look forward to building synergies that will ensure that the leather sector contribution to job-creation and the GDP grow exponentially in the next financial year.

  
**Mr Abdi Bare Duale**  
**Chairman of the Board**

## **REPORT OF THE CHIEF EXECUTIVE OFFICER**

Kenya Leather Development Council (KLDC) is a State Corporation established by the Government of Kenya under the Kenya Leather Development Council Order, 2011 (Legal Notice No. 114 of 9<sup>th</sup> September, 2011), under the State Corporations Act (Cap.446), Laws of Kenya. The Council was instituted as a specialized agency to drive the Government's agenda on the development of leather industry. To achieve this, the Council is expected to regulate and facilitate the growth of the industry.

The principle mandate of the KLDC is to drive the transformation of the leather value chain in the Country from a raw material/semi-processed export-driven sector to a finished leather product manufacturing industry. KLDC is therefore a key driver of the "Big Four" Agenda under the Manufacturing pillar.

The Council has continued to facilitate a value driven and sustainable leather industry as stipulated in Kenya's Vision 2030 and the establishing legal instrument, with the primary focus being the quality of leather & leather products for both local and export markets.

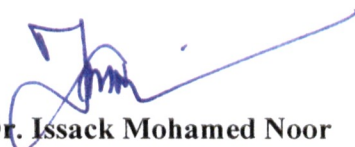
In order to strengthen the Council's regulatory framework, drafts of Kenya National Leather Policy and Kenya Leather Development Authority (KLDA) Bill have been developed. These instruments are expected to align the Council's operations with the new constitution and facilitate compliance in the industry through effective coordination. The draft policy is currently undergoing public participation before submission to the relevant Parliamentary Committee for further processing.

In order to improve service delivery and provide technical support, the Council has procured and is in the process of installing modern machinery at the Training & Production Centre for Shoe Industry (TPCSI), Thika, Kiambu County. Effort is also being made to improve the terms of service for staff at the Centre. This is expected to enhance their morale and increase the Centre's operational efficiency.

In order to address the growing local MSMEs needs, the Council is in the process of revamping the Kariokor Common Manufacturing Facility in Nairobi County through installation of modern equipment to enhance competitiveness of its products/outputs and employment opportunities.

During the financial year under review, the slow pace of progress of construction of the Common Effluent Treatment Plant (CETP) at the Kenya Leather Park, Kenanie, Machakos County, continued to impact negatively on the Council's absorption of exchequer grants for development. However, it is important to report that the works have now resumed in earnest and progressing well.

The Council remains committed to establishing a conducive environment that will promote the development of the leather industry, stimulate and nurture investment, while protecting the interests of the leather sector players through coordination and promotion of quality requirements across the leather value chain.



**Dr. Issack Mohamed Noor**  
**Chief Executive Officer**



## CORPORATE GOVERNANCE STATEMENT

The principle mandate of the Kenya Leather Development Council (KLDC) is to drive the transformation of the leather value chain in the Country from a raw material/semi-processed export driven sector to a finished leather products manufacturing industry. KLDC is a **key driver** of the “**Big Four**” Agenda under the Manufacturing Pillar. The roadmap to achieve success is embedded on strategic objectives which address the key challenges facing the leather sub-sector. The strategic objectives are aligned to the Council’s mandate.

In line with PFM Act of 2012, Sec. 68, the KLDC Accounting Officer is accountable to the National Assembly for ensuring that the public resources are used in a way that is; lawful and authorised; and effective, efficient, economical and transparent.

This role is discharged vis-a-vis the principles of good governance and the oversight of the Board of Directors (B.O.D) envisaged in the provisions of Section 15 of the State Corporations Act (Cap) 446 of the Laws of Kenya which states that a Board shall be responsible for the proper management of the affairs of a state corporation and shall be accountable for the moneys, the financial business and the management of a state corporation.

### Corporate Governance Principles

In pursuit of the corporate objective, we have committed to the highest level of good governance. KLDC strives to foster a culture that values and rewards exemplary performance within clear ethical standards, corporate integrity and upholding respect for others.

The Board of KLDC discharges its role and functions in compliance with the State Corporations Act and the requirements contained in Mwongozo (The code of Governance for State Corporations) and all other applicable laws, rules and regulations.

Mwongozo identifies the roles and functions of the Board which should be exercised collectively and not individually. The roles and functions include to determine the Organization’s vision, mission, purpose and core values; to set and oversee the overall strategy and approve policies of the Council; Approve the annual Budget; Monitor the Organization’s performance and ensure sustainability; Hire the CEO and approve the appointment of staff; and Ensure effective communication with stakeholders.

### Appointment of the Board of Directors

The Chairperson of KLDC is appointed by the President of the Republic of Kenya.

The Principal Secretary of the Parent Ministry and National Treasury appoint one alternate each to the Board. The Cabinet Secretary appoints seven (7) independent Board members and the CEO is appointed by the CS on recommendation by the Board.

### Size and composition of the Board

The Board of Directors currently consists of a chairperson and six (6) independent members and two alternates to the PS of the parent Ministry and the National Treasury. The skills matrix for the Board consists of individuals who possess extensive experience in various disciplines, which are applicable in the overall governance of the Council. The Board has currently achieved the right balance of skills and experience appropriate for the Council that ensures participation by all in decision making.



## Induction and Evaluation

The Council undertook the induction of the Board members and conducted a SCAC evaluation of the Board in line with the Executive Order no. 7 of 25<sup>th</sup> March 2015.

## Board Meetings

On the 1<sup>st</sup> of November 2019, in compliance with Clause 1.20 of Mwongozo the Code of Governance of State Corporations the Board appointed a Corporation Secretary which will ensure compliance with Clause 1.22- that the office of the CEO & the Corporation Secretary should be held by different persons. This is expected to improve the conduct and management of the Board meetings.

The Board of Directors meets at least once in every quarter. However special meetings may occasionally be convened to address urgent matters. These regular meetings ensure that the B.O.D is able to exercise its oversight role and continuous assessment of performance and delivery of the KLDC management and alignment with the strategic objectives.

At the meetings the B.O.D considers reports from the committees of the Board that delve into the agenda in detail. Members receive sufficient notice as prescribed in Mwongozo and board papers in advance to enable them review and prepare for the meeting. In all the meetings, the agenda includes declaration of conflict of interest. In the FY 2019-2020 none was declared.

During the FY 2019/2020, the Board had four (4) full Board meetings and (2) Special meetings; Audit Committee (AC) four (4) meetings; Finance & Governance Committee (F&G) four (4) meetings; H.R, Risk & Compliance Committee (HR&C) five (5) meetings; Technical & Strategy Committee (T&S) had four (4) meetings; and one Ad-hoc Committee. Individual attendance is as tabulated below.

## Full Board meeting attendance

**Table 1: The Board members and number of meetings held during the year:**

| S/No. | Name                    | Designation               | Regular Meetings | Special Meetings | Meetings Missed | Total |
|-------|-------------------------|---------------------------|------------------|------------------|-----------------|-------|
| 1     | Mr. Abdi Bare Duale     | Chairman                  | 4                | 2                | 0               | 6     |
| 2     | Mr. Henry M. Riungu     | Rep. CS National Treasury | 4                | 1                | 1               | 5     |
| 3     | Mr. Stephen K. Warui    | Member                    | 4                | 2                | 0               | 6     |
| 4     | Mr. Elias Busienei      | Member                    | 4                | 2                | 0               | 6     |
| 5     | Mr. Raphael L. Letimalo | Member                    | 4                | 2                | 0               | 6     |
| 6     | Ms Amina Mohammed       | Member                    | 4                | 2                | 0               | 6     |
| 7     | Ms Anne R. Lengerded    | Member                    | 4                | 2                | 0               | 6     |
| 8     | Ms. Elizabeth Kamau     | Member                    | 4                | 2                | 0               | 6     |
| 9     | Mr. Simon Atebe         | Rep. PS SDI               | 3                | 1                | 0               | 4     |
| 10    | Mr. Mark Stephenson     | Member                    | 2                | 0                | 4               | 2     |
| 11    | Dr Issack M. Noor       | Secretary/CEO             | 4                | 2                | 0               | 6     |
| 12.   | Ms. Angela N. Chege     | Corp. Secretary           | 3                | 2                | 0               | 5     |

## Note:

1. Mr. Mark Stephenson resigned and his resignation was accepted by the CS vide a letter dated 18<sup>th</sup> March, 2020.
2. Mr. Simon Atebe who is a representative of PS State Department of Industrialization was replaced vide a letter dated 29<sup>th</sup> January, 2020 but the communication was received at KLDC on the 3<sup>rd</sup> of march 2020.



## Board Committees

The Board has established four (4) standing committees that assist to discharge its functions. These committees are:

### a) Finance and Governance Committee

The committee critically scrutinizes the budget and other financial requirements before they are presented to the full Board. It oversees the Council's financial affairs on behalf of the Board; develops strategies to guide the growth of the Council and monitors its implementations; Reviewing the Council's financial strategy for approval by the Board; Reviewing the Council's annual financial statements and reporting to the Board; Receiving and considering annual external audit reports submitted by external auditors and, making recommendations to the Board; Reviewing the Council's financial regulations from time to time and recommending any necessary changes in those regulations to the Board.

**Table 2: The Committee members and number of meetings held during the year**

| S/No. | Name                    | Designation      | Regular Meetings | Special Meetings | Meetings Missed | Total |
|-------|-------------------------|------------------|------------------|------------------|-----------------|-------|
| 1     | Mr. Raphael L. Letimalo | Chairman         | 4                | 0                | 0               | 4     |
| 2     | Mr. Henry M. Riungu     | Alt. CS Treasury | 3                | 0                | 1               | 3     |
| 3     | Ms Anne R. Lengerded    | Member           | 4                | 0                | 0               | 4     |
| 4     | Mr. Simon Atebe         | Rep. PS SDI      | 3                | 0                | 1               | 3     |
| 5     | Dr Issack M. Noor       | Secretary/CEO    | 4                | 0                | 0               | 4     |
| 6     | Ms. Angela N. Chege     | Corp. Secretary  | 3                | 0                | 0               | 3     |

### b) Audit Committee

The Council aspires to use the public resources at its disposal in an efficient and accountable manner. In line with the The Kenya Gazette No. 2690 of 15<sup>th</sup> April, 2016, and PFM Act Sec. 73, an audit committee was established to provide independent advice and assurance of the Council's strategy, performance and compliance to different statutes.

The audit committee plays a key role with respect to the integrity of the entity's financial information, its system of governance, risk and internal controls, and the legal and ethical conduct of management and employees. The committee is required to review and report to the Board on the comprehensiveness, reliability and integrity of internal controls measures; quality assurance and standards required providing effective monitoring of processes, management of risk, recommend to the Board policies in respect to management and control systems on internal business processes including accounting policies, anti-fraud and whistle blowing consider an approved annual audit plan and advice the Board on matters relating to the security of the Council and staff and review and advice Board on all matters relating to the risk management framework and internal audit functions of the Council.



**Table 3: The Committee members and number of meetings held during the year**

| S/No. | Name                 | Designation            | Regular Meetings | Special Meetings | Meetings Missed | Total |
|-------|----------------------|------------------------|------------------|------------------|-----------------|-------|
| 1     | Mr. Elias Busienei   | Chairman               | 4                | 0                | 0               | 4     |
| 2     | Mr. Henry M. Riungu  | Alt PS Treasury        | 4                | 0                | 0               | 4     |
| 3     | Mr. Stephen K. Warui | Member                 | 4                | 0                | 0               | 4     |
| 4     | Mr. Mark Stephenson  | Member                 | 2                | 0                | 2               | 2     |
| 5     | Mr. Edwin Ombaka     | Secretary/int. Auditor | 4                | 0                | 0               | 4     |

**c) Human Resource and Risk Compliance Committee**

The Committee discusses matters dealing with staff before presentation to Board for necessary approvals, coordination, and formal evaluation of Kenya Leather Development Council staff and report to the Board. Monitor and evaluate the Management industrial relations, employment law compliance, conduct and discipline, health and welfare and make recommendations to the Board. The members and number of meetings held are listed below;

**Table 4: The Committee members and number of meetings held during the year**

| S/No. | Name                  | Designation     | Regular Meetings | Special Meetings | Meetings Missed | Total |
|-------|-----------------------|-----------------|------------------|------------------|-----------------|-------|
| 1     | Mr. Elizabeth Kamau   | Chairman        | 2                | 2                | 1               | 4     |
| 2     | Ms. Amina Wario       | Member          | 3                | 2                | 0               | 5     |
| 3     | Ms. Anne Lengerded    | Member          | 3                | 2                | 0               | 5     |
| 4     | Mr. Raphael Letimalo  | Member          | 3                | 2                | 0               | 5     |
| 5     | Mr. Elias K. Busienei | Member          | 3                | 2                | 0               | 5     |
| 6     | Dr Issack M. Noor     | Secretary/CEO   | 3                | 2                | 0               | 5     |
| 7     | Ms. Angela N. Chege   | Corp. Secretary | 2                | 0                | 0               | 2     |

**d) Technical and Strategy Committee**

The Committee makes deliberations on technical matters on the Leather Sector and finally presents their recommendations to the Board of the Council. Review the Council performance contract, annual reports, work plan and performance contract documents. Review the Council's projects and policy recommendations for the leather sector. The members and number of meetings held are listed below; -



**Table 5: The Committee members and number of meetings held during the year**

| S/No. | Name                 | Designation     | Regular Meetings | Special Meetings | Meetings Missed | Total |
|-------|----------------------|-----------------|------------------|------------------|-----------------|-------|
| 1     | Mr. Mark Stephenson  | Chairman        | 2                | 0                | 2               | 2     |
| 3     | Mr. Stephen K. Warui | Member          | 4                | 0                | 0               | 4     |
| 4     | Ms Amina Mohammed    | Member          | 4                | 0                | 0               | 4     |
| 5     | Mr. Simon Atebe      | Rep. PS SDI     | 3                | 0                | 1               | 3     |
| 6     | Dr Issack M. Noor    | Secretary/CEO   | 3                | 0                | 1               | 3     |
| 7     | Ms. Angela N. Chege  | Corp. Secretary | 3                | 0                | 0               | 3     |

During the FY 2019/2020 the Board approved among other things the budget and its accompanying procurement plan and the respective quarterly financial statements that were submitted to National Treasury on time.

The Board acknowledges the need for strategic partnerships and encourages the participation of the private sectors in our financial matrix. The pressing needs for more financing and the clear needs for transparency makes engagement with and reporting to the government and other stakeholders more important. The increasing requirement for prudent financial management has heightened the level of interest in the Council's approach to risk management and assurance.

The Board governs the Council consistent with the stated business strategy indicated in the Council's values of equity, team work, meritocracy, accountability and probity all contributing to the commitment to transparency and high-quality governance system.

The Council incurred a total expenditure of **Kshs. 10,891,400** in facilitating the Board to attend meetings which includes a monthly honorarium and airtime of **Kshs 87,000** (Gross) for the chairman.

**Table 6: The Board gross expenditure:**

| S/No. | Name                | Designation | QT1              | QT2              | QT3              | QT4              | GROSS AMOUNT      |
|-------|---------------------|-------------|------------------|------------------|------------------|------------------|-------------------|
| 1     | Mr Abdi Bare Duale  | Chairman    | 559,600          | 465,000          | 385,200          | 350,000          | 1,759,800         |
| 2     | Mrs Elizabeth Kamau | Member      | 297,600          | 71,000           | 126,200          | 42,000           | 536,800           |
| 3     | Mr Raphael Letimalo | Member      | 930,200          | 235,200          | 273,400          | 80,000           | 1,518,800         |
| 4     | Mrs Amina Wario     | Member      | 741,800          | 235,200          | 235,200          | 80,000           | 1,292,200         |
| 5     | Mrs Anne Lengerded  | Member      | 780,000          | 353,800          | 273,400          | 80,000           | 1,487,200         |
| 6     | Mr Elias busienei   | Member      | 820,200          | 353,800          | 273,400          | 80,000           | 1,527,400         |
| 7     | Mr Stephen Karume   | Member      | 545,100          | 223,500          | 235,000          | 80,000           | 1,083,600         |
| 8     | Mr Mark Stephenson  | Member      | 138,600          | 110,000          | -                | -                | 248,600           |
| 9     | Mr Henry Mutwiri    | Member      | 337,400          | 66,000           | 22,000           | 80,000           | 505,400           |
| 10    | Mr Simon Atebe      | Member      | 359,400          | 132,000          | 104,200          | -                | 595,600           |
| 11    | Mr Isaac Odek       | Member      | 66,000           | 22,000           | 88,000           | 120,000          | 296,000           |
| 12    | Mr Jared Ichwara    | Member      | -                | -                | -                | 40,000           | 40,000            |
|       | <b>Total</b>        |             | <b>5,575,900</b> | <b>2,267,500</b> | <b>2,016,000</b> | <b>1,032,000</b> | <b>10,891,400</b> |



## **MANAGEMENT DISCUSSIONS AND ANALYSIS**

### **Section A: The Council's operational and financial performance**

During the year under review, the Council received Government Recurrent grants of **Ksh. 158,200,000** and Development grants of **Ksh. 267,198,089**. The Training and Production Centre for Shoes Industry generated a revenue of **Ksh. 1,037,160**.

### **Section B: Council's compliance with statutory requirements**

During the year under review, the Council complied with all its statutory obligations including compliance to public procurement regulations, remittance of P.A.Y.E, NHIF, NSSF, and HELB within the stipulated deadlines. KLDC Board commits to implement internal control mechanisms in line with the Ethics and Anti-Corruption Commission Act No. 22 of 2011 and leadership and integrity Act of 2012. The Council does not foresee any potential for contingent liabilities arising from non-compliance with statutory obligations.

### **Section C: Key projects and investment decisions the Council is planning/implementing**

The Council plans to continue implementing its projects as per the Strategic Plan 2017-2022. This financial year, the Council is undertaking the following projects:

#### **1. Kenya Leather Park**

The Ministry of Industry, Trade and Cooperatives, through the Kenya Leather Development Council (KLDC), in partnership with the Export Processing Zones Authority (EPZA), is developing Kenya's first Leather Park (KLP) at Kinanie, Machakos County, to boost production. The KLP is set up on a 500-acre plot and will consist of various industries and services to promote the growth of the leather sector in the country. The Government funds the Leather Park. Consequently, reduction of the budget allocated for the project has greatly affected long term planning. Work on the facility is ongoing.

#### **2. Kariokor Common Manufacturing Facility**

The Kariokor market which houses over 200 stalls and over 6000 MSMEs, has been in existence for decades as a hub of manufacturing activities with MSMEs specializing in production of a wide array of footwear and other items made from range of materials including leather. Kariokor shoe cluster is being upgraded by KLDC, construction of a go-down by Nairobi County Government with the aim of transforming the market into a competitive leather product manufacturing hub through the establishment of a Common Manufacturing Facility is ongoing. The upgrade will result in improving the production in terms of quality and quantity. The MSME cluster upgrading is 100% funded by the Government. The machines for the facility have been procured.

### **3. Upgrading of Training and Production Centre for Shoe Industry (TPCSI)**

TPCSI is a training institute designed to support the development of the leather sub sector through skills development and common manufacturing facility. To achieve the objectives, it should be well equipped in terms of human resource and machinery. The Council has procured modern leather manufacturing equipment and machinery to enhance capacity building and offer common manufacturing facilities to MSMEs. The outcome of this effort is to create employment and improve micro- economic stability for citizens. The upgrade is fully funded by the Government.

### **4. Replication of Kariokor Common Manufacturing Model in the Counties**

KLDC intends to replicate the Kariokor Common Manufacturing model to Nakuru, Malindi, Eldoret, Kisumu, Meru and Murang'a.

#### **Section D: Major risks facing the Council**

KLDC may be insufficiently prepared to manage the major risks, which may face the organizations. Some of the major risks facing KLDC are;

- i) Insufficient funding.
- ii) Lack of sufficient human resource.
- iii) The existing regulatory framework (KLDC legal notice) lacks sufficient enforcement backing.
- iv) Lack of National Leather Policy to guide the sub-sector.

KLDC Management is doing everything possible to improve the Council's ability to deal with existing risks/challenges through appropriate risk management processes.

#### **Section E: Material arrears in statutory/financial obligations**

During the period under review, the Council has no any material arrears in statutory deductions or any historical pending bill.

#### **Section F: The Council's financial probity and serious governance issues**

The Audit Committee of the Board and the Auditor General regularly review the Council's internal control systems to ensure accuracy of financial reports, efficiency and effectiveness of operations and compliance to rules and regulations. In the FY 2019-2020, the Council strictly adhered to the code of ethics especially being honest in all financial matters including those relating to collections and its funding. The oversight bodies have not reported any financial improbity or any governance issues.



## **CORPORATE SOCIAL RESPONSIBILITY (CSR)**

During the FY 2019/20, Kenya Leather Development Council (KLDC) has been involved in the following Corporate Social Responsibility activities: -

- i) The Council participated in a tree planting exercise of 5,000 indigenous tree seedlings in Kibiko, Ngong' forest in line with the President's directive for Ministries, Departments & Agencies (MDAs) to partake in afforestation activities with the aim of attaining 10% forest cover by 2022.



- ii) The Council made a cash donation of Kshs.378,000 generated from voluntary staff salary cuts for the months of April, May & June to the Covid-19 Emergency Response Fund.
- iii) The Council explored areas of possible synergies in the implementation of the 10% tree cover strategy by facilitating the "Greening Initiative" kitty with Kshs.150,000 as our solid commitment in stakeholder participation.

## **REPORT OF THE BOARD OF THE COUNCIL**

The Board of the Council submits its annual report together with the unaudited financial statements for the year ended June 30, 2020, which shows the state of the Council's affairs.

### **Principal activities**

The Principle mandate of the KLDC is to drive the transformation of the leather value chain in the Country from a raw material/semi-processed export driven sector to a finished leather product manufacturing industry. KLDC is therefore a key driver of the "Big Four" Agenda under the Manufacturing Pillar. The roadmap to this success is embedded on strategic objectives which specifically address the key challenges facing it. The strategic objectives are aligned to the Council's mandate. While the management carries out the day-to-day activities of the Council, the Board of Council is responsible for the policy direction and evaluation of the activities through the various committees and Board approvals.

### **Results**

The results of the Council for the year ended June 30, 2020 are set out on page 1/

### **The Board of Directors**

The Appointment of the Board is in accordance to Section 4 of The Kenya Leather Development Council Order, 2011. The members of the Board of Council who served during the year are shown from page vi to vii.

### **Auditors**

The Auditor General is responsible for the statutory audit of the Council in accordance with the Section 16(2) of the Kenya Leather Development Council Order, 2011 and Article 229 of the Constitution of Kenya and the Public Audit Act 2015.

By Order of the Council Governing Board of Directors



**Dr. Issack M. Noor, PhD**  
**Chief Executive Officer**



## **STATEMENT OF THE COUNCIL'S RESPONSIBILITIES**

Section 81 of the Public Finance Management Act, 2012 and Section 13, 14, 15, 16, 17 and 18 of The Kenya Leather Development Council Order, 2011, requires the Directors to prepare financial statements in respect of the Council, which gives a true and fair view of the of the Council at the end of the financial year/period and the operating results of the Council for that year/period. The Council is also required to ensure that it keeps proper accounting records, which disclose with reasonable accuracy its financial position. The Board of the Council is also responsible for safeguarding the assets of the Council.

The Directors responsibilities include: -

- (i) Maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period;
- (ii) Maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Council;
- (iii) Designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud;
- (iv) Safeguarding the assets of the Council;
- (v) Selecting and applying appropriate accounting policies; and
- (vi) Making accounting estimates that are reasonable in the circumstances.

The Directors accepts responsibility for the Council's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public-Sector Accounting Standards (IPSAS), and in the manner required by the Public Finance Management (PFM) Act, 2012 and the State Corporations Act. The Council believes its financial statements give a true and fair view of the state of its transactions during the financial year ended June 30, 2020, and of the financial position as at that date. The Council further confirms the completeness of the accounting records maintained, which have been relied upon in the preparation of the financial statements as well as the adequacy of the systems of internal financial control.

Nothing has come to the attention of the Council to indicate that the Council will not remain a going concern for at least the next twelve months from the date of this statement.

### **Approval of the Financial Statements**

The entity's financial statements were approved by the Board on 24/07/2020 and signed on its behalf by:

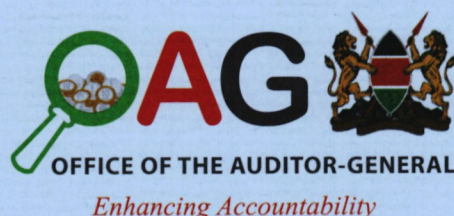
  
\_\_\_\_\_  
**Dr. Issack M. Noor, PhD**  
**Chief Executive Officer**

  
\_\_\_\_\_  
**Mr. Abdi Bare Duale**  
**Chairman of the Board**



# REPUBLIC OF KENYA

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## REPORT OF THE AUDITOR-GENERAL ON KENYA LEATHER DEVELOPMENT COUNCIL FOR THE YEAR ENDED 30 JUNE, 2020

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### REPORT ON THE FINANCIAL STATEMENTS

#### Qualified Opinion

I have audited the accompanying financial statements of Kenya Leather Development Council set out on pages 1 to 32, which comprise the statement of financial position as at 30 June, 2020, statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the Kenya Leather Development Council as at 30 June, 2020 and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Kenya Leather Development Council Order, 2011 and the Public Finance Management Act, 2012.

#### Basis for Qualified Opinion

##### 1.0 Property, Plant and Equipment

The statement of financial position as at 30 June, 2020 reflects property, plant and equipment totalling Kshs.408,767,695. However, examination of records on the balance revealed the following unsatisfactory issues:

##### 1.1 Unconfirmed Assets at Training and Production Centre

The property, plant and equipment balance includes land valued at Kshs.44,000,000 and other assorted equipment acquired by the Council when the Training and Production Centre for the Shoe Industry (TPCSI) located in Thika Town was acquired by the Council from Kenya Industrial Research and Development Institute (KIRDI). However, the handing over report did not disclose the values of the items of equipment, some of which



were bought at inception of the Centre in 1994, or in earlier years, and were operational, and others that were obsolete and dysfunctional.

In addition, the handing over report, indicated that TPCSI campus was located on a 0.1096 hectare (0.271 acre) plot of land, as per Trustee Deed made on 25 February, 1994 and certificate of title issued on 25 April, 1996. However, the title deed had not been transferred to the Council as at 30 June, 2020.

In view of these issues, valuation of the Council's property, plant and equipment at Kshs.408,767,695 and ownership by the Council of the land on which the TPCSI is located could not be confirmed.

## **1.2 Delayed Construction of Effluent Treatment Plant**

KLDC in a joint venture with the Export Processing Zone Authority (EPZA) in February, 2017 entered into a contract with a local contractor to build a modern common effluent treatment plant at Kenya Leather Park - Kenanie, Machakos Country at a contract sum of Kshs.2,265,324,226. Records provided for audit indicated that a feasibility study on the plant had before hand been procured by the EPZA and carried out in April, 2016.

However, audit review of procurement and management of the project contract raised the following concerns:

- (i) Records provided for audit indicated that, work commenced on 15 March, 2017 and was due for completion on 18 September, 2018 after 540 days but the date was revised on two occasions and eventually set for 28 June, 2021. At the time of conducting the audit in March, 2021, expenditure on the project totaled Kshs.629,827,310 equivalent to 27.8% of the contract price. Comparison of the work plan and targets revealed that the works were approximately 48% complete.
- (ii) In June, 2017, Management made an advance payment totalling Kshs.385,105,119 to the contractor and thereafter paid Kshs.90,000,000 on 1 March, 2018 for Works Certificate No.2 in 2018 and Kshs.40,000,000 for Works Certificate No.3 in 2019. Although Clause 13.2.2 of the contract indicated that the value of the performance security was to be amortized in proportion to the value of the work executed by and paid to the contractor until full recovery, the Council paid the contractor Kshs.25,718,920 during the year under review instead of recovering the amount from the advance payment as prescribed in Clause 13.2.2.
- (iii) Both KLDC and EPZA claim 50% stake in the project. However, the advance payment totalling Kshs.385,105,119 made by KLDC surpassed the 50% value of the venture costed at Kshs.226,532,435. The Council final stake in the project has not been clarified.
- (iv) After construction work commenced, approximately 60% of the project site measuring 500 acres was flooded by rain waters. As a result, the Department of



Public Works recommended that the plant be built on the unflooded portion of the land. Consequently, the master plan was revised to accommodate two treatment plants and re-location and a re-design of effluent flow from the leather park to the treatment plant. However, the agreement between the joint-venture partners and the contractor on the revised contract price following the changes had not been concluded at the time of the audit. In the absence of complete records on the revised works, it was not possible to confirm whether there was change in the value of the contract and how much the completed project would cost.

In view of these issues, it was not possible to confirm whether the property, plant and equipment balance totalling Kshs.408,767,695 reflected in the statement of financial position as at 30 June, 2020 was fairly stated,

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Kenya Leather Development Council Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

### **Key Audit Matters**

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. There are no key audit matters to report in the year under review.

### **Other Matter**

#### **1.0 Budgetary Control and Performance**

The statement of comparison of budget and actual amounts reflects a revenue budget totalling Kshs.1,432,560,017 and actual revenue totalling Kshs.1,433,036,767 resulting to a revenue surplus of Kshs.476,660. The statement further reflects budget expenditure totalling Kshs.1,432,560,107 actual expenditure totalling Kshs.200,626,862 resulting in an under expenditure of Kshs.1,231,933,245. The surplus mainly resulted from recurrent and development capitation balances brought forward from the previous year.

#### **2.0 Prior Year Issues**

The report for the previous year highlighted several unsatisfactory issues relating to the property, plant and equipment balance reflected in the financial statements for the year. Management has in the report on progress made in resolving the issues indicated that two of the issues had since been resolved and two others were pending. The actual status of the issues shall be confirmed after they are discussed by the Legislature.



# REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

## Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, I confirm that, except for the matter described in the Basis for Lawfulness and Effectiveness in Use of Public Resources Section of my report, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

## Unutilized Leather Products Manufacturing Equipment

As previously reported, the Council entered into a contract with local company in 2015/2016 for the supply, delivery, installation of footwear and leather goods manufacturing equipment, and training of artisans at a total cost of Kshs.83,038,539. Although Management had indicated that the venture was preceded by a concept paper and a Memorandum of Understanding (MoU) with the Company, the two documents were not provided for audit review. Further, a deposit amounting to Kshs.16,607,708 equivalent to 20% of the contract value was paid to the Company in 2015/2016.

Contrary to the terms in the signed contract, during the financial year 2016/2017, the Council made a further payment amounting to Kshs.59,787,745 to the supplier before the equipment was installed, commissioned and training of users conducted. In addition, during the year 2015/2016, the had Council engaged a local company at a contract price of Kshs.17,390,148 to supply, deliver, and install foot wear and leather goods manufacturing equipment and train artisans. As a result, the total costs of the equipment bought under the two contracts amounted to Kshs.100,428,687.

All the equipment was delivered and records provided for audit indicated that the Council paid a total of Kshs.92,046,586 out of Kshs.100,428,687 dues. However, the equipment had as at 30 June, 2020 been in storage at the Council's premises for more than three years and most of the items had not been installed, tested and put to their intended uses. As a result, the benefits the equipment was expected to provide in revitalizing local production of shoes and other leather products had not been realized. Management explained the delay in installing the equipment as having resulted from the need to modernize the working spaces the equipments were to be used in, including reconfiguring electrical installations.

Consequently, value for money on the expenditure totalling Kshs.92,046,586 incurred on their purchase had not been realized.

## Basis for Conclusion

The audit was conducted in accordance with ISSAI 4000. The Standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that

govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

## **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

### **Conclusion**

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

### **Basis for Conclusion**

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The Standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

### **Responsibilities of Management and Board of Directors**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Accrual Basis) and for maintaining effective internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal control, risk management and governance.

In preparing the financial statements, Management is responsible for assessing the Council's ability to continue to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to dissolve the Council, or cease operations.

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

In addition to the responsibility for the preparation and presentation of the financial statements described above, Management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

The Board of Director is responsible for overseeing the Council's financial reporting process, reviewing the effectiveness of how Management monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and



systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

### **Auditor-General's Responsibilities for the Audit**

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to

those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the applicable basis of accounting, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Council's ability to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Council to cease to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Council to express an opinion on the financial statements
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

I also provide Management with a statement that I have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

  
CPA Nancy Gathungu, CBS  
AUDITOR-GENERAL

Nairobi

11 February, 2022



**STATEMENT OF FINANCIAL PERFORMANCE**  
**FOR THE YEAR ENDED 30 JUNE, 2020**

| Revenue                                       | Notes | 2019-2020          | 2018-2019           |
|-----------------------------------------------|-------|--------------------|---------------------|
| <b>Revenue from non-exchange transactions</b> |       |                    | <b>Restated</b>     |
| G.o.K Grant -Recurrent                        | 6(a)  | 158,200,000        | 53,635,204          |
| G.o.K Grant -Development                      | 6(c)  | 10,669,836         | 28,031,833          |
| <b>Total</b>                                  |       | <b>168,869,836</b> | <b>81,667,037</b>   |
| <b>Revenue from exchange transactions</b>     |       |                    |                     |
| Sundry Income: Services fee at TPCSI          | 7     | 1,476,660          | 1,060,903           |
| <b>Total Revenue</b>                          |       | <b>170,346,496</b> | <b>82,727,940</b>   |
| <b>Expenses</b>                               |       |                    |                     |
| Goods and Services                            | 8     | 773,021            | 266,114             |
| Employee Costs                                | 9     | 45,451,404         | 26,046,991          |
| Board Expenses                                | 10    | 13,036,500         | 9,619,578           |
| Depreciation and Amortization                 | 11    | 28,821,378         | 43,234,423          |
| Repairs and Maintenance                       | 12    | 1,859,124          | 1,828,065           |
| Contracted Services                           | 13    | 8,960,340          | 3,928,789           |
| General Administrative Expenses               | 14    | 42,390,503         | 37,952,668          |
| Operating Expenses Relating to Core Mandate   | 15    | 3,848,335          | 1,606,376           |
| <b>Total Expenses</b>                         |       | <b>145,140,604</b> | <b>124,483,003</b>  |
| Surplus/(Deficit) before Tax                  |       | 25,205,892         | (41,755,063)        |
| <b>Taxation</b>                               |       | -                  | -                   |
| <b>Surplus/(Deficit) for the Period</b>       |       | <b>25,205,892</b>  | <b>(41,755,063)</b> |

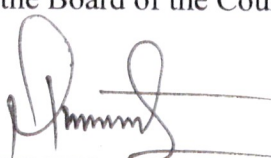
The notes set out on pages 6 to 25 form an integral part of these financial statement

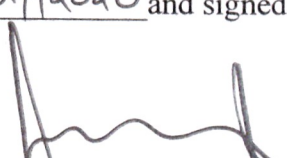
**STATEMENT OF FINANCIAL POSITION**  
**AS AT 30 JUNE 2020**

|                                                     | Notes | 2019-2020            | 2018-2019<br>Restated |
|-----------------------------------------------------|-------|----------------------|-----------------------|
| <b>ASSET</b>                                        |       |                      |                       |
| <b>Current Assets</b>                               |       |                      |                       |
| Cash and Cash Equivalents                           | 16    | 1,257,949,812        | 1,039,434,836         |
| Receivables from exchange transactions              | 17    | 5,989,684            | 5,825,933             |
| Receivables from non-exchange transactions          | 18    | 385,105,119          | 385,105,119           |
| Inventories                                         | 19    | 6,531,423            | 5,217,336             |
| <b>Total Current Assets</b>                         |       | <b>1,655,576,038</b> | <b>1,435,583,224</b>  |
| <b>Non-Current Assets</b>                           |       |                      |                       |
| Property, Plant and Equipment                       | 20    | 408,767,695          | 347,184,938           |
| Intangible Assets                                   | 21    | 513,751              | 29,863                |
| <b>Total Non- Current Assets</b>                    |       | <b>409,281,446</b>   | <b>347,214,800</b>    |
| <b>Total Assets</b>                                 |       | <b>2,064,857,483</b> | <b>1,782,798,024</b>  |
| <b>LIABILITIES</b>                                  |       |                      |                       |
| <b>Current Liabilities</b>                          |       |                      |                       |
| Trade and Other Payables from exchange transactions | 22    | 1,002,958            | 464,000               |
| Refundable Deposit from customers                   | 23    | 26,478,787           | 33,272,818            |
| <b>Total</b>                                        |       | <b>27,481,745</b>    | <b>33,736,818</b>     |
| <b>Non-Current Liabilities</b>                      |       |                      |                       |
|                                                     |       | -                    | -                     |
| <b>Total Liabilities</b>                            |       | <b>27,481,745</b>    | <b>33,736,818</b>     |
| <b>Net Assets</b>                                   |       | <b>2,037,375,738</b> | <b>1,749,061,206</b>  |
| <b>RESERVES</b>                                     |       |                      |                       |
| Capital Reserve                                     |       | 1,772,071,278        | 1,515,543,025         |
| Revenue Reserve                                     |       | 216,422,644          | 184,636,365           |
| Revaluation Reserve                                 |       | 48,881,816           | 48,881,816            |
| <b>Total Reserves</b>                               |       | <b>2,037,375,738</b> | <b>1,749,061,206</b>  |

The financial statements were approved by the Board of the Council on 24/07/2020 and signed on its behalf by:

  
Dr. Issack M. Noor, PhD  
Chief Executive Officer

  
CPA M. Khalif  
Manager, Finance & Accounts  
ICPAK No.13129

  
Mr. Abdi Bare Duale  
Chairman of the Board



**STATEMENT OF CHANGES IN NET ASSETS  
FOR THE YEAR ENDED 30 JUNE 2020**

|                                                | Revenue<br>Reserve<br>Restated | Capital Reserve<br>Restated | Revaluation<br>Reserve | Total                |
|------------------------------------------------|--------------------------------|-----------------------------|------------------------|----------------------|
| <b>As at 1 July 2017</b>                       | <b>214,994,219</b>             | <b>457,806,986</b>          | <b>-</b>               | <b>672,801,205</b>   |
| Surplus/(deficit) for the period               | 11,397,209                     | -                           | -                      | 11,397,209           |
| Transfers to/from accumulated reserves         | -                              | -                           | -                      | -                    |
| Transfer of excess depreciation on revaluation | -                              | -                           | -                      | -                    |
| Capital grants received during the year        | -                              | 137,595,372                 | -                      | 137,595,372          |
| Grants receivable during the year              | -                              | 548,172,500                 | -                      | 548,172,500          |
| Prior years adjustments                        | -                              | -                           | -                      | -                    |
| <b>As at 30 June, 2018</b>                     | <b>226,391,428</b>             | <b>1,143,574,858</b>        | <b>-</b>               | <b>1,369,966,286</b> |
| <b>As at 1 July 2018</b>                       | <b>226,391,428</b>             | <b>1,143,574,858</b>        | <b>-</b>               | <b>1,369,966,286</b> |
| Surplus/(deficit) for the period               | (41,755,063)                   | -                           | -                      | (41,755,063)         |
| Transfers to Revaluation reserves              | -                              | -                           | 48,881,816             | 48,881,816           |
| Transfer of depreciation on revaluation        | -                              | -                           | -                      | -                    |
| Capital grants received during the year        | -                              | 371,968,167                 | -                      | 371,968,167          |
| <b>As at 30 June, 2019</b>                     | <b>184,636,365</b>             | <b>1,515,543,025</b>        | <b>48,881,816</b>      | <b>1,749,061,206</b> |
| <b>As at 1 July 2019</b>                       | <b>184,636,365</b>             | <b>1,515,543,025</b>        | <b>48,881,816</b>      | <b>1,749,061,206</b> |
| Surplus/(deficit) for the period               | 25,205,892                     | -                           | -                      | 25,205,892           |
| Transfers to Revaluation reserves              | -                              | -                           | -                      | -                    |
| Capital grants received during the year        | -                              | 256,528,253                 | -                      | 256,528,253          |
| Prior years adjustments                        | 6,580,387                      | -                           | -                      | 6,580,387            |
| <b>As at 30 June, 2020</b>                     | <b>216,422,644</b>             | <b>1,772,071,278</b>        | <b>48,881,816</b>      | <b>2,037,375,738</b> |

**Note:****a) Revenue Reserve**

This represents the net worth of the Council for the period ended 30<sup>th</sup> June, 2020 and forms the retained earnings.

Prior year adjustments under revenue reserve of **Kshs. 6,580,387** presents correction errors due to overstatement of amortization as a result of re-classification of Asset from intangible assets to PPE under furniture, fitting and equipment and reported in the previous year's financial statements. This resulted in understatement of revenue reserves.

**b) Capital reserve**

This represents the net worth of the Council for the period ended 30<sup>th</sup> June, 2020 and forms the Capital Reserve.



**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 30 JUNE 2020**

| <b>Cash Flows from operating Activities</b>                 |      | <b>2019-2020</b>     | <b>2018-2019</b>     |
|-------------------------------------------------------------|------|----------------------|----------------------|
| <b>Receipt</b>                                              |      | <b>Kshs</b>          | <b>Kshs</b>          |
| Government Grants                                           | 6(a) | 158,200,000          | 53,635,204           |
| Sundry Income: Services fee at TPCSI                        | 7    | 1,476,660            | 1,060,903            |
| <b>Total Receipts</b>                                       |      | <b>159,676,660</b>   | <b>54,696,107</b>    |
| Goods and Services                                          | 8    | 773,021              | 266,114              |
| Board Expenses                                              | 10   | 13,036,500           | 9,619,578            |
| Repairs and maintenance                                     | 12   | 1,859,124            | 1,828,065            |
| Operating Expenses Relating to Core Mandate                 | 15   | 3,848,335            | 1,606,376            |
| Employee costs                                              | 24   | 44,239,812           | 26,124,491           |
| Contracted services                                         | 25   | 7,601,337            | 4,783,785            |
| General Administrative expenses                             | 26   | 56,578,973           | 38,128,467           |
| <b>Total Payments</b>                                       |      | <b>127,937,102</b>   | <b>82,356,876</b>    |
| <b>Net Cash Flows from Operating Activities</b>             |      | <b>31,739,558</b>    | <b>(27,660,769)</b>  |
| <b>Cash Flows from Investing Activities</b>                 |      |                      |                      |
| Purchase of Property, Plant, Equipment                      | 20   | (79,737,672)         | (37,409,000)         |
| Purchase of Intangible Assets                               | 21   | (685,000)            | -                    |
| <b>Net Cash Flows Used in Investing Activities</b>          |      | <b>(80,422,672)</b>  | <b>(37,409,000)</b>  |
| <b>Cash flows from financing activities</b>                 |      |                      |                      |
| Capital Grants                                              | 6(b) | 267,198,089          | 948,172,500          |
| <b>Net cash flows used in financing activities</b>          |      | <b>267,198,089</b>   | <b>948,172,500</b>   |
| <b>Net Increase/(Decrease) in Cash and Cash Equivalents</b> |      | <b>218,514,975</b>   | <b>883,102,731</b>   |
| Cash and Cash Equivalent at 1 July 2019                     |      | 1,039,434,836        | 156,332,105          |
| <b>Cash and Cash Equivalent as at 30 June 2020</b>          |      | <b>1,257,949,812</b> | <b>1,039,434,836</b> |

**Note:**

The Cash flow statement is prepared on the actual receipts and payments, hence excludes any accrued amount.



**STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS  
FOR THE YEAR ENDED 30 JUNE 2020**

|                                             | Original budget    | Adjustments          | Final budget         | Actual on comparable basis | Performance difference | Notes to material variances |
|---------------------------------------------|--------------------|----------------------|----------------------|----------------------------|------------------------|-----------------------------|
|                                             | 2019-2020          | 2019-2020            | 2019-2020            | 2019-2020                  | 2019-2020              |                             |
| Revenue                                     | Kshs               | Kshs                 | Kshs                 | Kshs                       | Kshs                   |                             |
| Recurrent Capitation                        | 158,200,000        | -                    | 158,200,000          | 158,200,000                | -                      |                             |
| Development Capitation                      | 100,000,000        | 167,198,089          | 267,198,089          | 267,198,089                | -                      |                             |
| Other Income                                | 1,000,000          | -                    | 1,000,000            | 1,476,660                  | 476,660                | (a)                         |
| Balance B/F- Recurrent                      | -                  | 9,866,979            | 9,866,979            | 9,866,979                  | -                      |                             |
| Balance B/F- Development                    | -                  | 996,295,039          | 996,295,039          | 996,295,039                | -                      |                             |
| <b>Total income</b>                         | <b>259,200,000</b> | <b>1,173,360,107</b> | <b>1,432,560,107</b> | <b>1,433,036,767</b>       | <b>476,660</b>         |                             |
| <b>Expenditure</b>                          |                    |                      |                      |                            |                        |                             |
| Employee Costs                              | 109,040,000        | (32,513,606)         | 76,526,394           | 45,451,404                 | 31,074,991             | (b)                         |
| Board Expenses                              | 10,960,000         | 7,000,000            | 17,960,000           | 13,036,500                 | 4,923,500              | (c)                         |
| Contracted Services                         | 10,714,000         | 6,735,000            | 17,449,000           | 8,960,340                  | 8,488,661              | (d)                         |
| Good & Services                             | 550,000            | 490,000              | 1,040,000            | 773,021                    | 266,979                |                             |
| Operating Expenses Relating to Core Mandate | 250,000            | 4,300,000            | 4,550,000            | 3,848,335                  | 701,665                | (e)                         |
| General Administrative Expenses             | 26,986,000         | 22,115,585           | 49,101,585           | 42,390,503                 | 6,711,082              | (f)                         |
| Repairs and Maintenance                     | 700,000            | 1,740,000            | 2,440,000            | 1,859,124                  | 580,876                | (g)                         |
| Capital Expenditure                         | 100,000,000        | 1,163,493,128        | 1,263,493,128        | 84,307,636                 | 1,179,185,492          | (h)                         |
| <b>Total Expenditure</b>                    | <b>259,200,000</b> | <b>1,173,360,107</b> | <b>1,432,560,107</b> | <b>200,626,862</b>         | <b>1,231,933,245</b>   |                             |
| <b>Surplus/(Deficit) for the period</b>     | <b>-</b>           | <b>-</b>             | <b>-</b>             | <b>1,232,409,905</b>       | <b>(1,231,456,585)</b> |                             |

**Explanation of material variance**

- a) **Other Income**-was above the budget as the Council realised more income hence favourable variance.
- b) **Employee Costs**- The variance is due to delay in recruitment process
- c) **Board Expenses**- The variance is favourable due to conducting of meetings virtually.
- d) **Contracted Services**- The variance is favourable due to delay in certain planned activities.
- e) **Operating expenses relating to core mandate**- The variance is favourable due to carry over of certain activities to next financial year as a result of Covid-19 pandemic.
- f) **General Administrative Expenses**- The variance is favourable due to delay in planned activities over the fiscal period.
- g) **Repair & Maintenances**- The variance is favourable due to delay in planned activities over the fiscal period.
- h) **Capital expenditure**- The Variance is because of unrepresented works certificate by project manager for work done.

## NOTES TO THE FINANCIAL STATEMENTS

### 1. GENERAL INFORMATION

KLDC is established by and derives its authority and accountability from State Corporations Act (CAP 446, Legal Notice No.114 of 9<sup>th</sup> September 2011). The entity is wholly owned by the Government of Kenya and domiciled in Kenya. The entity's principal activity is advice the Minister and Government of Kenya on National strategies and policy with respect to the leather industry.

### 2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION – IPSAS 1

The Council's financial statements have been prepared in accordance with and comply with International Public-Sector Accounting Standards (IPSAS). The financial statements are presented in Kenya shillings, which is the functional and reporting currency of the Council. The accounting policies have been consistently applied to all the years presented.

The financial statements have been prepared based on historical cost, unless stated otherwise. The cash flow statement is prepared using the direct method. The financial statements are prepared on accrual basis.

### 3. ADOPTION OF NEW AND REVISED STANDARDS

#### i. Relevant new standards and amendments to published standards effective for the year ended 30 June 2020

| Standard                                   | Effective date and impact:                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
|--------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| IPSAS 40:<br>Public Sector<br>Combinations | <p><b>Applicable: 1<sup>st</sup> January 2019:</b></p> <p>The standard covers public sector combinations arising from exchange transactions in which case they are treated similarly with IFRS 3 (applicable to acquisitions only) Business combinations and combinations arising from non-exchange transactions which are covered purely under Public Sector combinations as amalgamations.</p> <p><i>The Council does not engage in Exchange transactions and therefore the standard does not apply.</i></p> |



## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### ii. New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2020

| Standard                                                                        | Effective date and impact:                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
|---------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>IPSAS 41:</b>                                                                | <b>Applicable: 1<sup>st</sup> January 2022:</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| Financial Instruments                                                           | <p>The objective of IPSAS 41 is to establish principles for the financial reporting of financial assets and liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows.</p> <p>IPSAS 41 provides users of financial statements with more useful information than IPSAS 29, by:</p> <ul style="list-style-type: none"> <li>• Applying a single classification and measurement model for financial assets that considers the characteristics of the asset's cash flows and the objective for which the asset is held;</li> <li>• Applying a single forward-looking expected credit loss model that is applicable to all financial instruments subject to impairment testing; and</li> <li>• Applying an improved hedge accounting model that broadens the hedging arrangements in scope of the guidance. The model develops a strong link between an entity's risk management strategies and the accounting treatment for instruments held as part of the risk management strategy.</li> </ul> <p><i>The standard is currently not applicable to the Council</i></p> |
| <b>IPSAS 42:</b>                                                                | <b>Applicable: 1<sup>st</sup> January 2022</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| Social Benefits                                                                 | <p>The objective of this Standard is to improve the relevance, faithful representativeness and comparability of the information that a reporting entity provides in its financial statements about social benefits. The information provided should help users of the financial statements and general-purpose financial reports assess:</p> <p>(a) The nature of such social benefits provided by the entity;</p> <p>(b) The key features of the operation of those social benefit schemes; and</p> <p>(c) The impact of such social benefits provided on the entity's financial performance, financial position and cash flows.</p> <p><i>The standard is applicable to the Council and will be adopted when it becomes effective</i></p>                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| <b>Amendments to Other IPSAS resulting from IPSAS 41, Financial Instruments</b> | <p><b>Applicable: 1<sup>st</sup> January 2022:</b></p> <p>a) Amendments to IPSAS 5, to update the guidance related to the components of borrowing costs which were inadvertently omitted when IPSAS 41 was issued.</p> <p>b) Amendments to IPSAS 30, regarding illustrative examples on hedging and credit risk which were inadvertently omitted when IPSAS 41 was issued.</p> <p>c) Amendments to IPSAS 30, to update the guidance for accounting for financial guarantee contracts which were inadvertently omitted when IPSAS 41 was issued. Amendments to IPSAS 33, to update the guidance on classifying financial instruments on initial adoption of accrual basis IPSAS which were inadvertently omitted when IPSAS 41 was issued.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                       |

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

|                       |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
|-----------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Other                 | <b>Applicable: 1<sup>st</sup> January 2021:</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| Improvements to IPSAS | <p>a) Amendments to IPSAS 13, to include the appropriate references to IPSAS on impairment, in place of the current references to other international and/or national accounting frameworks</p> <p>b) IPSAS 13, Leases and IPSAS 17, Property, Plant, and Equipment. Amendments to remove transitional provisions which should have been deleted when IPSAS 33, First Time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs) was approved</p> <p>c) IPSAS 21, Impairment of Non-Cash-Generating Assets and IPSAS 26, Impairment of Cash Generating Assets. Amendments to ensure consistency of impairment guidance to account for revalued assets in the scope of IPSAS 17, Property, Plant, and Equipment and IPSAS 31, Intangible Assets.</p> <p>d) IPSAS 33, First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs). Amendments to the implementation guidance on deemed cost in IPSAS 33 to make it consistent with the core principles in the Standard</p> |

### iii. Early adoption of standards

The Council did not early – adopt any new or amended standards in year under review.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### a) Revenue Recognition

#### i) Revenue from Non-Exchange Transactions – IPSAS 23

##### **Government and Donor Funding**

The Council recognizes revenues from Government and donors when the event occurs and the asset recognition criteria are met. To the extent that there is a related condition attached that would give rise to a liability to repay the amount, deferred income is recognized instead of revenue. Other non-exchange revenues are recognized when it is probable that the future economic benefits or service potential associated with the asset will flow to the Council and the fair value of the asset can be measured reliably. The Council's policy is to apportion operating expenses incurred under Development vote to the statement of Financial Performance and the balance of Development Income for Development Projects is apportioned to statement of changes in net assets under Capital Fund. Recurrent operating expenses and Revenue are fully recognized to the statement of Financial Performance

##### **Transfers from other government entities**

Revenues from non-exchange transactions with other government entities are measured at fair value and recognized on obtaining control of the asset (cash, goods, services and property) if the transfer is free from conditions and it is probable that the economic benefits or service potential related to the asset will flow to the Council and can be measured reliably.



## **NOTES TO THE FINANCIAL STATEMENTS (Continued)**

### **i) Revenue from Exchange Transactions**

The Council recognizes revenue from training and other service charges at Training and Production Centre for Shoe Industry.

### **a) Budget information – IPSAS 24**

The annual budget is prepared on the accrual basis, that is, all planned costs and income are presented in a single statement to determine the needs of the Council. As a result of the adoption of the accrual basis for budgeting purposes, there are no basis, timing or Council differences that would require reconciliation between the actual comparable amounts and the amounts presented as a separate additional financial statement in the statement of comparison of budget and actual amounts.

### **b) Exemption from Corporation Tax – IAS 12**

#### **Current income tax**

The Council is exempted from the payment of corporation tax as stipulated in paragraph 219 (3) of the PFM act of 2015. However, the Council complies with all other statutory obligations.

#### **Deferred tax**

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognized for all taxable temporary differences, except in respect of taxable temporary differences associated with investments in controlled entities, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except in respect of deductible temporary differences associated with investments in controlled entities, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognized outside surplus or deficit is recognized outside surplus or deficit.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

Deferred tax items are recognized in correlation to the underlying transaction in net assets. Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable Council and the same taxation authority.

### c) Operating lease – IPSAS 13:44

The Council has a six (6) years leases with CPA Centre whereby we are paying rent on quarterly basis. The rights of ownership have not been conveyed to the Kenya Leather Development Council.

### d) Property, Plant and Equipment – IPSAS 17

All Property, Plant and Equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. When significant parts of Property, Plant and Equipment are required to be replaced at intervals, the Council recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the Plant and Equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in surplus or deficit as incurred. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration the asset is initially measured at its fair value. The Council adopts a straight-line depreciation policy as follows;

|                                   |       |
|-----------------------------------|-------|
| Motor Vehicles                    | 25%   |
| Computers                         | 30%   |
| Furniture, Fittings and Equipment | 12.5% |
| Plant and Machinery               | 33.3% |
| Building                          | 2%    |

### Capital work in progress

Work in progress represents properties (CETP) and Perimeter wall construction projects. It is carried at cost, less any recognized impairment loss. Depreciation of these assets commences when the assets are ready for their intended use on the same basis as other buildings.

### e) Intangible assets–IPSAS 31

Intangible assets acquired separately are initially recognized at cost. The cost of intangible assets acquired in a non-exchange transaction is their fair value at the date of the exchange. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in surplus or deficit in the period in which the expenditure is incurred. The useful life of the intangible assets is finite and intangible assets are depreciated at 25% per annum on straight-line basis. The intangible assets recognized in the Councils books relate to accounting software and leasehold improvements properties.

### f) Leases – IPSAS 13

Finance leases are leases that transfer substantially all the risks and benefits incidental to ownership of the leased item to the Council. Assets held under a finance lease are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the future minimum lease payments. The Council also recognizes the associated lease liability at the



## **NOTES TO THE FINANCIAL STATEMENTS (Continued)**

inception of the lease. The liability recognized is measured as the present value of the future minimum lease payments at initial recognition.

Subsequent to initial recognition, lease payments are apportioned between finance charges and reduction of the lease liability to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized as finance costs in surplus or deficit.

An asset held under a finance lease is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Council will obtain ownership of the asset by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating leases are leases that do not transfer substantially all the risks and benefits incidental to ownership of the leased item to the Council. Operating lease payments are recognized as an operating expense in surplus or deficit on a straight-line basis over the lease term.

### **g) Research and Development costs**

The Council expenses research costs as incurred. Development costs on an individual project are recognized as intangible assets when the Council can demonstrate:

- i) The technical feasibility of completing the asset so that the asset will be available for use or sale
- ii) Its intention to complete and its ability to use or sell the asset
- iii) How the asset will generate future economic benefits or service potential
- iv) The availability of resources to complete the asset
- v) The ability to measure reliably the expenditure during development

### **h) Financial instruments – IPSAS 29**

#### **i) Financial assets**

##### **o Initial recognition and measurement**

Financial assets within the scope of IPSAS 29 Financial Instruments: Recognition and Measurement are classified as financial assets at fair value through surplus or deficit, loans and receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate. The Council determines the classification of its financial assets at initial recognition.

##### **o Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. Losses arising from impairment are recognized in the surplus or deficit.

##### **o Held-to-maturity**

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Council has the positive intention and ability to hold it to maturity. After initial measurement, held-to-maturity investments are measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The losses arising from impairment are recognized in surplus or deficit.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### ○ Impairment of financial assets

The Council assesses at each reporting date whether there is objective evidence that a financial asset of the Council is impaired. A financial asset of the Council is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the Council of financial assets that can be reliably estimated. Evidence of impairment may include the following indicators:

- The debtors of the Council are experiencing significant financial difficulty
- Default or delinquency in interest or principal payments
- The probability that debtors will enter bankruptcy or other financial reorganization
- Observable data indicates a measurable decrease in estimated future cash flows (e.g., changes in arrears or economic conditions that correlate with defaults)

### ii) Financial liabilities

#### Initial recognition and measurement

Financial liabilities within the scope of IPSAS 29 are classified as financial liabilities at fair value through surplus or deficit or loans and borrowings, as appropriate. The Council determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, plus directly attributable transaction costs.

#### Loans and borrowing

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in surplus or deficit when the liabilities are derecognized as well as through the effective interest method amortization process.

#### Amortization –IPSAS 29.65

Amortized cost is calculated by considering any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The intangible assets are amortized at 25% of the initial cost.

### i) Inventories – IPSAS 12

Inventory is measured at cost upon initial recognition. To the extent that inventory was received through non-exchange transactions (for no cost or for a nominal cost), the cost of the inventory is its fair value at the date of acquisition.

Costs incurred in bringing each product to its present location and conditions are accounted for, as follows:

- Raw materials: purchase cost using the weighted average cost method
- Finished goods and work in progress: cost of direct materials and labor and a proportion of manufacturing overheads based on the normal operating capacity, but excluding borrowing costs

After initial recognition, inventory is measured at the lower of cost and net realizable value. However, to the extent that a class of inventory is distributed or deployed at no charge or for a nominal charge, that class of inventory is measured at the lower of cost and current replacement cost.



## **NOTES TO THE FINANCIAL STATEMENTS (Continued)**

Net realizable value is the estimated selling price in the ordinary course of operations, less the estimated costs of completion and the estimated costs necessary to make the sale, exchange, or distribution.

Inventories are recognized as an expense when deployed for utilization or consumption in the ordinary course of operations of the Council.

### **j) Provisions – IPSAS 19**

Provisions are recognized when the Council has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Council expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of financial performance net of any reimbursement.

#### **Contingent liabilities**

The Council does not recognize a contingent liability, but discloses details of any contingencies in the notes to the financial statements, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote. In the year under review there were no contingent liabilities

#### **Contingent assets**

The Council does not recognize a contingent asset, but discloses details of a possible asset whose existence is contingent on the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Council in the notes to the financial statements. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the asset and the related revenue are recognized in the financial statements of the period in which the change occurs.

### **k) Nature and purpose of reserves**

The Council creates and maintains reserves in terms of specific requirements.

### **l) Changes in accounting policies and estimates – IPSAS 3**

The Council recognizes the effects of changes in accounting policy retrospectively. The effects of changes in accounting policy are applied prospectively if retrospective application is impractical.

### **m) Employee benefits – IPSAS 25**

#### **Retirement benefit plans**

Defined benefit plans are post-employment benefit plans other than defined-contribution plans. The defined benefit funds are actuarially valued tri-annually on the projected unit credit method basis. Deficits identified are recovered through lump sum payments or increased future contributions on proportional basis to all participating employers. The contributions and lump sum payments reduce the post-employment benefit obligation.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### n) Foreign currency transactions – IPSAS 4

Transactions in foreign currencies are initially accounted for at the ruling rate of exchange on the date of the transaction. Trade creditors or debtors denominated in foreign currency are reported at the statement of financial position reporting date by applying the exchange rate on that date. Exchange differences arising from the settlement of creditors, or from the reporting of creditors at rates different from those at which they were initially recorded during the period, are recognized as income or expenses in the period in which they arise. Currently there are no foreign exchange transactions.

### o) Cash and cash equivalents

Cash and cash equivalents basically comprise of cash in hand and cash at bank and may include any other item that may be readily converted to cash or represents cash. It is the policy of the Council to disclose the financial institutions where such amounts are held.

### p) Comparative figures

Where necessary comparative figures for the previous financial year have been amended or reconfigured to conform to the required changes in presentation.

## 5. SIGNIFICANT JUDGMENTS AND SOURCES OF ESTIMATION UNCERTAINTY – IPSAS 1

The preparation of the Council's financial statements in conformity with IPSAS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets, and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

### a) Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Council based its assumptions and estimates on parameters available when the consolidated Financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond Control of the Council. Such changes are reflected in the assumptions when they occur (IPSAS 1.140)

### b) Useful lives and residual values

The useful lives and residual values of assets are assessed using the following indicators to inform potential future use and value from disposal:

- i) The condition of the asset based on the assessment of experts employed by the Council
- ii) The nature of the asset, its susceptibility and adaptability to changes in technology and processes
- iii) Availability of funding to replace the asset
- iv) The nature of the processes in which the asset is deployed
- v) Changes in the market in relation to the asset



## **NOTES TO THE FINANCIAL STATEMENTS (Continued)**

### **c) Provisions**

Provisions on audit fees were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions is included in Note 14 under audit fees expenses. Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

### **d) Going Concern**

The financial statement have been prepared on a going concern basis. Therefore, nothing has come to the attention of the Directors to indicate that the entity will not remain a going concern for at least the next twelve months from the date of this statement.

### **e) Subsequent events – IPSAS 14**

There have been no events subsequent to the financial year-end with a significant impact on the financial statements for the year ended June 30, 2020.

### **f) Related party transactions –IPSAS 20**

Parties are related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

### **g) Operating Expenses**

The Council's policy is to apportion operating expenses relating to project administrative expenses incurred under Development vote to the statement of financial performance and the balance of Development Income to statement of changes in net assets under capital reserve. During the financial year under review an amount of Kshs. 10,669,836 relating to development income was apportioned to the statement of financial performance and the balance of Kshs. 256,528,253 for capital expenditure transferred to Statement of changes in net assets. Recurrent operating expenses and Revenue are fully recognized to the statement of financial performance.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)****6. GOVERNMENT GRANTS AND CAPITATION****a) RECURRENT GRANTS**

| Qtr          | Month  | Description          | 2019-2020<br>Kshs  | 2018-2019<br>Kshs |
|--------------|--------|----------------------|--------------------|-------------------|
| 1st          | Sep-19 | Quarterly Capitation | 39,550,000         | 13,682,450        |
| 2nd          | Jan-20 | Quarterly Capitation | 39,550,000         | 12,861,503        |
| 3rd          | Mar-20 | Quarterly Capitation | 39,550,000         | 13,682,450        |
| 4th          | Jun-19 | Quarterly Capitation | 39,550,000         | 13,408,801        |
| <b>Total</b> |        |                      | <b>158,200,000</b> | <b>53,635,204</b> |

**b) G.O.K GRANT-DEVELOPMENT**

| Period       | Month Received | Description        | 2019-2020<br>Kshs  | 2018-2019<br>Kshs  |
|--------------|----------------|--------------------|--------------------|--------------------|
| 1st          | Oct-19         | Development Grants | 50,000,000         | 548,172,000        |
| 2nd          |                | Development Grants | -                  | 200,000,000        |
| 3rd          | Feb-20         | Development Grants | 217,198,089        | 200,000,000        |
| <b>Total</b> |                |                    | <b>267,198,089</b> | <b>948,172,000</b> |

**c) G.O.K GRANT – DEVELOPMENT**

| Item         | Description                                | 2019-2020<br>Kshs | 2018-2019<br>Kshs |
|--------------|--------------------------------------------|-------------------|-------------------|
| 1            | Development Grants- Project Administration | 10,669,836        | 28,031,833        |
| <b>Total</b> |                                            | <b>10,669,836</b> | <b>28,031,833</b> |

**7. SUNDRY INCOME**

| Description           | 2019-2020<br>Kshs | 2018-2019<br>Kshs |
|-----------------------|-------------------|-------------------|
| Services fee at TPCSI | 1,037,160         | 1,060,903         |
| Other income          | 439,500           | -                 |
| <b>Sub-Total</b>      | <b>1,476,660</b>  | <b>1,060,903</b>  |

**8. GOODS AND SERVICES**

| Description  | 2019-2020<br>Kshs | 2018-2019<br>Kshs |
|--------------|-------------------|-------------------|
| Electricity  | 727,814           | 242,143           |
| Water        | 45,207            | 23,971            |
| <b>Total</b> | <b>773,021</b>    | <b>266,114</b>    |



**NOTES TO THE FINANCIAL STATEMENTS (Continued)****9. EMPLOYEE COSTS**

|                                      | 2019-2020         | 2018-2019         |
|--------------------------------------|-------------------|-------------------|
| Description                          | Kshs              | Kshs              |
| Basic Salaries                       | 26,270,190        | 14,065,246        |
| House Allowance                      | 8,694,728         | -                 |
| Commuter Allowance                   | 3,796,948         | -                 |
| Leave Allowance                      | 223,000           | -                 |
| Other Remunerative Allowance         | 751,597           | -                 |
| Pension & NSSF Employer Contribution | 1,055,055         | -                 |
| Casual Wages                         | 4,659,886         | 5,244,739         |
| Income Tax -PAYE                     | -                 | 5,846,790         |
| NSSF                                 | -                 | 651,466           |
| NHIF                                 | -                 | 238,750           |
| <b>Total</b>                         | <b>45,451,404</b> | <b>26,046,991</b> |

**10. BOARD EXPENSES**

|                      | 2019-2020         | 2018-2019        |
|----------------------|-------------------|------------------|
| Description          | Kshs              | Kshs             |
| Chairman's Honoraria | 960,000           | 960,000          |
| Directors emoluments | 10,891,400        | 8,659,578        |
| Other board expenses | 1,185,100         | -                |
| <b>Total</b>         | <b>13,036,500</b> | <b>9,619,578</b> |

**11. DEPRECIATION AND AMORTIZATION**

|                               | 2019-2020         | 2018-2019         |
|-------------------------------|-------------------|-------------------|
| Description                   | Kshs              | Kshs              |
| Property, plant and equipment | 28,620,265        | 43,204,560        |
| Intangible Asset              | 201,113           | 29,863            |
| <b>Total</b>                  | <b>28,821,378</b> | <b>43,234,423</b> |

**12. REPAIRS AND MAINTENANCE**

|                                             | 2019-2020        | 2018-2019        |
|---------------------------------------------|------------------|------------------|
| Description                                 | Kshs             | Kshs             |
| Motor Vehicle Maintenance                   | 887,582          | 569,372          |
| Maintenance of office furniture&Equipment   | 209,461          | 79,560           |
| Maintenance of Comps, Software and Internet | 406,640          | 341,600          |
| Maintenance of plant and Machinery          | 355,441          | 348,303          |
| Refurbishment of Buildings                  | -                | 489,230          |
| <b>Total</b>                                | <b>1,859,124</b> | <b>1,828,065</b> |



**NOTES TO THE FINANCIAL STATEMENTS (Continued)****13. CONTRACTED SERVICES**

| <b>Description</b>           | <b>2019-2020<br/>Kshs</b> | <b>2018-2019<br/>Kshs</b> |
|------------------------------|---------------------------|---------------------------|
| Contracted Guards Services   | 1,446,701                 | 1,392,000                 |
| Consultancy Services         | 45,000                    | -                         |
| Medical Insurance            | 5,896,229                 | 1,787,971                 |
| Motor Vehicle Insurance      | 673,930                   | 748,818                   |
| Sanitary & Cleaning Services | 898,480                   | -                         |
| <b>Total</b>                 | <b>8,960,340</b>          | <b>3,928,789</b>          |

**Note:** Motor vehicle insurance of Kshs.748,818 for FY 2018/19 was classified under General Expenses.

**14. GENERAL ADMINISTRATIVE EXPENSES**

| <b>Description</b>                   | <b>2019-2020<br/>Kshs</b> | <b>2018-2019<br/>Kshs</b> |
|--------------------------------------|---------------------------|---------------------------|
| Telephone Expenses                   | 1,876,757                 | 1,378,200                 |
| Courier and Postage                  | 23,200                    | 23,390                    |
| Daily Subsistence Allowance          | 7,591,420                 | 7,170,603                 |
| Printing and Stationeries            | 3,684,498                 | 3,387,500                 |
| Newspaper Subscription               | 161,060                   | 70,465                    |
| Advertisement, Awareness & Publicity | 544,662                   | -                         |
| Office Rent                          | 14,717,446                | 10,272,404                |
| Training Expenses                    | 129,720                   | 3,052,095                 |
| Hospitality, Supplies and Services   | 4,301,656                 | 1,480,720                 |
| General Office Supplies              | 6,369,762                 | 5,279,093                 |
| Motor Vehicle Fuel                   | 1,413,511                 | 2,301,071                 |
| Subscription & Membership fees       | 130,920                   | 50,757                    |
| Audit Fees                           | 464,000                   | 1,392,000                 |
| Purchase of Uniforms                 | -                         | 28,450                    |
| Foreign Travel                       | 81,538                    | 1,718,196                 |
| Internet Connections                 | 694,004                   | 260,000                   |
| Purchase of ICT Networks             | -                         | 8,000                     |
| Purchase of Software                 | -                         | 30,000                    |
| Corporate Social Responsibility      | 150,000                   | -                         |
| Bank Charges                         | 56,349                    | 49,723                    |
| <b>Total</b>                         | <b>42,390,503</b>         | <b>37,952,668</b>         |

**Note:** Motor vehicle insurance of Kshs.748,818 for FY 2018/19 was classified under Contracted service during the year under review. Trade shows and exhibitions of Kshs. 1,606,376 are renamed and classified under operating expenses relating to core mandate as promotions and marketing.



**NOTES TO THE FINANCIAL STATEMENTS (Continued)****15. OPERATING EXPENSES RELATING TO CORE MANDATE**

| Description                                | 2019-2020<br>Kshs | 2018-2019<br>Kshs |
|--------------------------------------------|-------------------|-------------------|
| Hides & Skin Quality Improvement Programme | 2,148,835         | -                 |
| Promotion & Marketing                      | 1,699,500         | 1,606,376         |
| <b>Total</b>                               | <b>3,848,335</b>  | <b>1,606,376</b>  |

**16. CASH AND CASH EQUIVALENTS**

| Description     | 2019-2020<br>Kshs    | 2018-2019<br>Kshs    |
|-----------------|----------------------|----------------------|
| Current Account | 1,257,914,727        | 1,039,157,284        |
| Cash in Hand    | 35,085               | 277,552              |
| <b>Total</b>    | <b>1,257,949,812</b> | <b>1,039,434,836</b> |

**a) Current account****Financial institution**

|                         |                      |                      |
|-------------------------|----------------------|----------------------|
| KCB Recurrent Account   | 54,159,822           | 8,079,656            |
| KCB Development Account | 1,175,636,517        | 996,017,487          |
| KCB Deposit Account     | 28,118,389           | 35,060,142           |
| <b>Total</b>            | <b>1,257,914,727</b> | <b>1,039,157,284</b> |

**17. RECEIVABLES FROM EXCHANGE TRANSACTIONS**

| Description             | 2019-2020<br>Kshs | 2018-2019<br>Kshs |
|-------------------------|-------------------|-------------------|
| <b>Prepayments</b>      |                   |                   |
| Fuel                    | 430,879           | 726,214           |
| Medical                 | -                 | 1,306,526         |
| Motor Vehicle Insurance | 303,116           | 355,592           |
| Advances - staff        | -                 | 77,500            |
| Internet Connections    | 172,954           | 792,000           |
| Office Rent             | 5,082,736         | 2,568,101         |
| <b>Total</b>            | <b>5,989,684</b>  | <b>5,825,933</b>  |

**18. RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS**

| Description                         | 2019-2020<br>Kshs  | 2018-2019<br>Kshs  |
|-------------------------------------|--------------------|--------------------|
| Kenya Leather Park Advance Payments | 385,105,119        | 385,105,119        |
| GoK Development Grant               | -                  | -                  |
| <b>Total</b>                        | <b>385,105,119</b> | <b>385,105,119</b> |



## NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 19. INVENTORIES

| Description       | 2019-2020<br>Kshs | 2018-2019<br>Kshs |
|-------------------|-------------------|-------------------|
| Consumable Stores | 6,531,423         | 5,217,336         |
| <b>Total</b>      | <b>6,531,423</b>  | <b>5,217,336</b>  |

## 20. PROPERTY, PLANT AND EQUIPMENT

|                                        | Land       | Building    | Motor vehicles | Furniture, fittings & Equipments | Computers, Copiers & Printers | Plant & Machinery | Capital Work In Progress | Total       |
|----------------------------------------|------------|-------------|----------------|----------------------------------|-------------------------------|-------------------|--------------------------|-------------|
| Cost                                   | Shs        | Shs         | Shs            | Shs                              | Shs                           | Shs               | Shs                      | Shs         |
| At end of year - June 2016             | -          | -           | 16,740,888     | 3,817,114                        | 7,972,014                     | -                 | 16,471,676               | 45,001,692  |
| Additions                              | -          | -           | 9,543,688      | 6,338,175                        | 2,044,557                     | 83,038,535        | 87,939,138               | 188,904,093 |
| At end of year - June 2017             | -          | -           | 26,284,576     | 10,155,289                       | 10,016,571                    | 83,038,535        | 104,410,814              | 233,905,785 |
| Additions                              | -          | -           | -              | 240,000                          | 1,450,000                     | 17,390,281        | 122,940,161              | 142,020,442 |
| At end of year - June 2018             | -          | -           | 26,284,576     | 10,395,289                       | 11,466,571                    | 100,428,816       | 227,350,976              | 375,926,228 |
| Additions                              | -          | -           | -              | 40,000                           | 749,000                       | 620,000           | 40,000,000               | 41,409,000  |
| Revaluation Gain                       | 44,000,000 | -           | 4,881,816      | -                                | -                             | -                 | -                        | 48,881,816  |
| At end of year - June 2019             | 44,000,000 | -           | 31,166,392     | 10,435,289                       | 12,215,571                    | 101,048,816       | 267,350,976              | 466,217,044 |
| Additions                              | -          | -           | -              | 49,054,916                       | 8,848,800                     | -                 | 25,718,920               | 83,622,636  |
| Transfers/adjustments                  | -          | 108,057,543 | -              | 26,321,549                       | -                             | -                 | (108,057,543)            | 26,321,549  |
| Revaluation Gain                       | -          | -           | -              | -                                | -                             | -                 | -                        | -           |
| As at 30 June 2020                     | 44,000,000 | 108,057,543 | 31,166,392     | 85,811,754                       | 21,064,371                    | 101,048,816       | 185,012,353              | 576,161,229 |
| <b>Depreciation and impairment</b>     |            |             |                |                                  |                               |                   |                          |             |
| Depreciation as at 30.06.2016          | -          | -           | 7,124,104      | 954,279                          | 4,239,644                     | -                 | -                        | 12,318,027  |
| Depreciation/Amortization              | -          | -           | 6,571,144      | 1,269,411                        | 3,004,971                     | 27,651,832        | -                        | 38,497,359  |
| Depreciation as at 30.06.2017          | -          | -           | 13,695,248     | 2,223,690                        | 7,244,615                     | 27,651,832        | -                        | 50,815,386  |
| Depreciation/Amortization              | -          | -           | 6,571,144      | 1,299,411                        | 3,439,971                     | 33,442,796        | -                        | 44,753,322  |
| Depreciation as at 30.06.2018          | -          | -           | 20,266,392     | 3,523,101                        | 10,684,587                    | 61,094,628        | -                        | 95,568,708  |
| Depreciation/Amortization              | -          | -           | 7,791,598      | 1,304,411                        | 459,295                       | 33,649,256        | -                        | 43,204,560  |
| Depreciation as at 30.06.2019          | -          | -           | 28,057,990     | 4,827,512                        | 11,143,882                    | 94,743,884        | -                        | 138,773,268 |
| Depreciation/Amortization for the year | -          | 2,161,151   | 3,108,402      | 10,726,469                       | 6,319,311                     | 6,304,932         | -                        | 28,620,266  |
| Depreciation as at 30.06.2020          | -          | 2,161,151   | 31,166,392     | 15,553,982                       | 17,463,193                    | 101,048,816       | -                        | 167,393,534 |
| <b>NET BOOK VALUES</b>                 |            |             |                |                                  |                               |                   |                          |             |
| As at 30th June 2017                   | -          | -           | 12,589,328     | 7,931,599                        | 2,771,956                     | 55,386,703        | 104,410,814              | 183,090,400 |
| As at 30 June 2018                     | -          | -           | 6,018,184      | 6,872,188                        | 781,984                       | 39,334,188        | 227,350,976              | 280,357,520 |
| As at 30 June 2019                     | 44,000,000 | -           | 3,108,402      | 5,607,777                        | 1,071,689.08                  | 6,304,932         | 267,350,976              | 327,443,776 |
| As at 30 June 2020                     | 44,000,000 | 105,896,392 | -              | 70,257,772                       | 3,601,178                     | -                 | 185,012,353              | 408,767,695 |

## Note:

- The Council carried out valuation of its motor vehicles in the year 2018/2019. In the current year, this class is also fully depreciated and valuation can be done once in every three years in line with IPSAS 17 and hence the NBV for FY 2018/2019 forms the depreciation value for the year under review.
- The Plant and Machinery is also fully depreciated and valuation shall be in the next financial year and hence the NBV for FY 2018/2019 forms the depreciation value for the year under review.
- The transfer of Kshs. 26,321,549 to furniture, fittings and equipment is as a result of re-classification of intangible assets to PPE in relation to prior years.
- The perimeter wall at Kenanine has been completed and hence capitalized as an Asset under Building.



## NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 21. INTANGIBLE ASSETS

| COST/VALUATION                            | Software  | Branding | Total     |
|-------------------------------------------|-----------|----------|-----------|
| At end of year - June 2016                |           |          | -         |
| Additions                                 |           |          | -         |
| At end of year - June 2017                | 132,000   | 119,450  | 251,450   |
| Additions                                 | -         | -        | -         |
| At end of year - June 2018                | 132,000   | 119,450  | 251,450   |
| Additions                                 | -         | -        | -         |
| Adjustments (Revaluation)                 | (132,000) | -        | (132,000) |
| At end of year - June 2019                | -         | 119,450  | 119,450   |
| Additions                                 | 562,600   | 122,400  | 685,000   |
| As at 30 June 2020                        | 562,600   | 241,850  | 804,450   |
| <b>DEPRECIATION &amp; IMPAIRMENT</b>      |           |          |           |
| Depreciation as at 30.06.2016             | -         | -        | -         |
| Depreciation/Amortization                 |           |          | -         |
| Depreciation as at 30.06.2017             | 99,000    | 29,863   | 128,863   |
| Depreciation/Amortization                 | 33,000    | 29,863   | 62,863    |
| Depreciation as at 30.06.2018             | 132,000   | 59,726   | 191,726   |
| Adj. Depreciation on Revaluation          | -         | -        | -         |
| Amortization and impairment on adjustment | (132,000) | 29,862   | (102,138) |
| Depreciation as at 30.06.2019             | -         | 89,587   | 89,588    |
| Depreciation/Amortization for the year    | 140,650   | 60,463   | 201,113   |
| Depreciation as at 30.06.2020             | 140,650   | 150,050  | 290,700   |
| <b>NET BOOK VALUES</b>                    |           |          |           |
| As at 30th June 2018                      | -         | 59,725   | 59,725    |
| As at 30th June 2019                      | -         | 29,863   | 29,862    |
| As at 30 June 2020                        | 421,950   | 91,800   | 513,751   |

## 22. TRADE AND OTHER PAYABLES FROM EXCHANGE TRANSACTIONS

| Description           | 2019-2020<br>Kshs | 2018-2019<br>Kshs |
|-----------------------|-------------------|-------------------|
| Provisions~Audit Fees | 928,000           | 464,000           |
| Internet Connections  | 74,958            | -                 |
| <b>Total</b>          | <b>1,002,958</b>  | <b>464,000</b>    |



**NOTES TO THE FINANCIAL STATEMENTS (Continued)****23. REFUNDABLE DEPOSIT FROM CUSTOMERS**

| <b>Description</b>  | <b>2019-2020<br/>Kshs</b> | <b>2018-2019<br/>Kshs</b> |
|---------------------|---------------------------|---------------------------|
| Kenya Leather Park  | 15,571,892                | 24,890,587                |
| Plant and Machinery | 8,382,231                 | 8,382,231                 |
| Intangible Assets   | 1,313,072                 | -                         |
| Pension             | 1,211,592                 | -                         |
| <b>Total</b>        | <b>26,478,787</b>         | <b>33,272,818</b>         |

**24. EMPLOYEE COSTS (Cashflow)**

| <b>Description</b>                   | <b>2019-2020<br/>Kshs</b> | <b>2018-2019<br/>Kshs</b> |
|--------------------------------------|---------------------------|---------------------------|
| Basic Salaries                       | 25,866,333                | 14,142,746                |
| House Allowance                      | 8,694,728                 | -                         |
| Commuter Allowance                   | 3,796,948                 | -                         |
| Leave Allowance                      | 223,000                   | -                         |
| Other Remunerative Allowance         | 751,597                   | -                         |
| Pension & NSSF Employer Contribution | 247,320                   | -                         |
| Casual Wages                         | 4,659,886                 | 5,244,740                 |
| Income Tax -PAYE                     | -                         | 5,846,790                 |
| NSSF                                 | -                         | 651,466                   |
| NHIF                                 | -                         | 238,750                   |
| <b>Total</b>                         | <b>44,239,812</b>         | <b>26,124,491</b>         |

**Note:** The difference in figure of employee cost of **Kshs. 1,211,592** under statement of financial performance and cashflow statement is as a result of staff pension contributions which were deducted but not yet remitted since the Council is in the process of identifying an umbrella scheme.

**25. CONTRACTED SERVICES (Cashflow)**

| <b>Description</b>           | <b>2019-2020<br/>Kshs</b> | <b>2018-2019<br/>Kshs</b> |
|------------------------------|---------------------------|---------------------------|
| Contracted Guards Services   | 1,446,701                 | 1,392,000                 |
| Consultancy Services         | 45,000                    | -                         |
| Medical Insurance            | 4,589,703                 | 2,630,552                 |
| Motor Vehicle Insurance      | 621,453                   | 761,233                   |
| Sanitary & Cleaning Services | 898,480                   | -                         |
| <b>Total</b>                 | <b>7,601,337</b>          | <b>4,783,785</b>          |

**Note:** The difference in figure of contracted services under statement of financial performance and cashflow statement is as a result of inclusion of motor vehicle insurance (**Kshs 52,477**) and medical insurance (**Kshs. 1,306,526**) being decrease in prepayments for the services.



**NOTES TO THE FINANCIAL STATEMENTS (Continued)****26. GENERAL EXPENSES (Cashflow)**

| <b>Description</b>                   | <b>2019-2020<br/>Kshs</b> | <b>2018-2019<br/>Kshs</b> |
|--------------------------------------|---------------------------|---------------------------|
| Telephone Expenses                   | 1,876,757                 | 1,378,200                 |
| Courier and Postage                  | 23,200                    | 23,390                    |
| Daily Subsistence Allowance          | 7,591,420                 | 7,170,603                 |
| Printing and Stationeries            | 3,684,498                 | 3,387,500                 |
| Newspaper Subscription               | 161,060                   | 70,465                    |
| Advertisement, Awareness & Publicity | 544,662                   | -                         |
| Office Rent                          | 17,232,081                | 10,272,404                |
| Training Expenses                    | 129,720                   | 3,052,095                 |
| Hospitality, Supplies and Services   | 4,301,656                 | 1,480,720                 |
| General Office Supplies              | 6,369,762                 | 5,279,093                 |
| Motor Vehicle Fuel                   | 1,118,176                 | 2,408,870                 |
| Subscription & Membership fees       | 130,920                   | 50,757                    |
| Audit Fees                           | 464,000                   | 928,000                   |
| Purchase of Uniforms                 | -                         | 28,450                    |
| Foreign Travel                       | 81,538                    | 1,718,196                 |
| Internet Connections                 | -                         | 792,000                   |
| Purchase of ICT Networks             | -                         | 8,000                     |
| Purchase of Software                 | -                         | 30,000                    |
| Corporate Social Responsibility      | 150,000                   | -                         |
| Bank Charges                         | 56,349                    | 49,723                    |
| Release of Retention                 | 12,663,174                | -                         |
| <b>Total</b>                         | <b>56,578,973</b>         | <b>38,128,467</b>         |

**Note:** The difference in figure of general expenses under statement of financial performance and cashflow statement is as a result of inclusion of Rent (**Kshs 2,514,635**) due to increase in prepayment over the period, release in retention fund of (**Kshs.12,663,174**) and decrease in prepayment for fuel by (**Kshs. 295,335**).

**27. Financial Risk Management**

The Council's activities expose it to a variety of financial risks including credit and liquidity risks. The Council's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimise the potential adverse effect of such risks on its performance by setting acceptable levels of risk. The Council does not hedge any risks and has in place policies to ensure that these risks are minimised.

The Council's financial risk management objectives and policies are detailed below:

**i) Liquidity risk management**

Ultimate responsibility for liquidity risk management rests with the Board to the Council who have built an appropriate liquidity risk management framework for the management of the Council's short, medium and long-term funding and liquidity management requirements. The Council manages liquidity risk through continuous monitoring of forecasts and actual cash flows. Insufficient budgetary allocations are a major risk as liabilities will not be settled as scheduled.



**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

|                               | Less than 1<br>month<br>Kshs'000' | Between 1-5<br>months<br>Kshs'000' | Over 5<br>months<br>Kshs'000' | Total<br>Kshs'000' |
|-------------------------------|-----------------------------------|------------------------------------|-------------------------------|--------------------|
| <b>At 30 June 2020</b>        |                                   |                                    |                               |                    |
| Trade payables                | -                                 | 1,003                              | -                             | <b>1,003</b>       |
| Current portion of borrowings | -                                 | -                                  | -                             | -                  |
| Provisions                    | -                                 | -                                  | -                             | -                  |
| Deferred income               | -                                 | -                                  | -                             | -                  |
| Employee benefit obligation   | -                                 | -                                  | -                             | -                  |
| <b>Total</b>                  | <b>-</b>                          | <b>1,003</b>                       | <b>-</b>                      | <b>1,003</b>       |
| <b>At 30 June 2019</b>        |                                   |                                    |                               |                    |
| Trade payables                | -                                 | 464                                | -                             | <b>464</b>         |
| Current portion of borrowings | -                                 | -                                  | -                             | -                  |
| Provisions                    | -                                 | -                                  | -                             | -                  |
| Deferred income               | -                                 | -                                  | -                             | -                  |
| Employee benefit obligation   | -                                 | -                                  | -                             | -                  |
| <b>Total</b>                  | <b>-</b>                          | <b>464</b>                         | <b>-</b>                      | <b>464</b>         |

**ii) Market risk**

The board has put in place an internal audit function to assist it in assessing the risk faced by the Council on an ongoing basis, evaluate and test the design and effectiveness of its internal accounting and operational controls.

Market risk is the risk arising from changes in market prices, such as interest rate, equity prices and foreign exchange rates which will affect the Council's income or its purchasing power. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. Overall responsibility for managing market risk rests with the Audit and Risk Management Committee.

The Council's Internal Audit Department is responsible for the development of detailed risk management policies (subject to review and approval by Audit and Risk Management Committee) and for the day-to-day implementation of those policies.

There has been no change to the Council's exposure to market risks or the manner in which it manages and measures the risk.

**iii) Foreign currency risk**

The Council does not engage in foreign currency transactions and therefore no transactional currency exposures. Such exposure arises through purchases of goods and services that are done in currencies other than the local currency.

**iv) Interest rate risk**

Interest rate risk is the risk that the Council's financial condition may be adversely affected as a result of changes in interest rate levels. Its interest rate risk arises from bank deposits. This exposes the Council to cash flow interest rate risk. The interest rate risk exposure arises mainly from interest rate movements on the Council's deposits.



**NOTES TO THE FINANCIAL STATEMENTS (Continued)****Management of interest rate risk**

To manage the interest rate risk, management has endeavoured to bank with institutions that offer favourable interest rates.

**Fair value of financial assets and liabilities****a) Financial instruments measured at fair value**

Determination of fair value and fair values hierarchy

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the entity's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components. This hierarchy requires the use of observable market data when available. The entity considers relevant and observable market prices in its valuations where possible.

The following table shows an analysis of financial and non- financial instruments recorded at fair value by level of the fair value hierarchy:

|                           | Level 1  | Level 2            | Level 3  | Total              |
|---------------------------|----------|--------------------|----------|--------------------|
| <b>At 30 June 2020</b>    |          |                    |          |                    |
| Financial Assets          | -        | -                  | -        | -                  |
| Quoted equity investments | -        | -                  | -        | -                  |
| Non- financial Assets     | -        | -                  | -        | -                  |
| Investment property       | -        | -                  | -        | -                  |
| Land & Building           | -        | 149,896,392        | -        | 149,896,392        |
| <b>Total</b>              | <b>-</b> | <b>149,896,392</b> | <b>-</b> | <b>149,896,392</b> |
| <b>At 30 June 2019</b>    |          |                    |          |                    |
| Financial Assets          | -        | -                  | -        | -                  |
| Quoted equity investments | -        | -                  | -        | -                  |
| Non- financial Assets     | -        | -                  | -        | -                  |
| Investment property       | -        | -                  | -        | -                  |
| Land & Building           | -        | 44,000,000         | -        | 44,000,000         |
| <b>Total</b>              | <b>-</b> | <b>44,000,000</b>  | <b>-</b> | <b>44,000,000</b>  |

There were no transfers between levels 1, 2 and 3 during the year.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)****iv) Capital Risk Management**

The objective of the entity's capital risk management is to safeguard the Council's ability to continue as a going concern. The entity capital structure comprises of the following funds:

|                                             | 2019-2020            | 2018-2019            |
|---------------------------------------------|----------------------|----------------------|
| Revaluation reserve                         | 48,881,816           | 48,881,816           |
| Revenue Reserve                             | 189,076,109          | 171,475,591          |
| Capital reserve                             | 1,772,071,278        | 1,515,543,025        |
| <b>Total funds</b>                          | <b>2,010,029,203</b> | <b>1,735,900,432</b> |
| <br>Total borrowings                        | <br>0                | <br>0                |
| Less: cash and bank balances                | 1,257,949,812        | 1,039,434,836        |
| Net debt/(excess cash and cash equivalents) | (1,257,949,812)      | (1,039,434,836)      |
| <b>Gearing</b>                              | <b>0%</b>            | <b>0%</b>            |



## **NOTES TO THE FINANCIAL STATEMENTS (Continued)**

### **28. Related Party Transactions**

#### **a) Nature of related party relationships**

Entities and other parties related to the Council include those parties who have ability to exercise control or exercise significant influence over its operating and financial decisions. Related parties include management personnel, their associates and close family members.

The Council is related to:

- i) The National Government;
- ii) The Parent Ministry: Ministry of Industry, Trade and Cooperatives
- iii) Board Members
- iv) Export Processing Zones Authority (EPZA)
- v) Nairobi City County Government (NCCG)
- vi) Key Management

#### **b) Related party transfers**

There were no transfers made to/and from the top management staff.

#### **c) Due from related parties**

There were no dues from the top management or from the council members during the year under review.

#### **d) Due to related parties**

There were no dues to and from ministries or other departments during the period under review.

### **29. Segment information**

The Council operates with County Governments and specifically in the proximity of Nairobi and does have branch in Thika. Hence IPSAS 18 on segment reporting is not applicable

### **30. Contingent assets and contingent liabilities**

At the close of business on 30<sup>th</sup> June, 2020, the Council did not have any contingent asset or liability.

### **31. Capital Commitments**

At the close of business on 30<sup>th</sup> June 2020, the Council did not have any capital commitments

### **32. Events after the reporting period**

There was no material adjusting events after the reporting period.

### **33. Ultimate and Holding Council**

The Council is a State Corporation/ or a Semi- Autonomous Government Agency under the Ministry of Industry, Trade & Cooperatives. Its ultimate parent is the Government of Kenya.

### **34. The Reporting Currency**

The financial statements are presented in Kenya Shillings (Kshs).

**APPENDIX I: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS**

The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor. We have nominated focal persons to resolve the various issues as shown below with the associated time frame within which we expect the issues to be resolved.

| Ref No. | Issue / Observations from Auditor                                                                                                                                                                                                                                                                                                                  | Management comments                                                                                                                                                                                                                                                                                                                                                                                                                                                 | Focal Point person to resolve the issue | Status:             | Time frame: |
|---------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------|---------------------|-------------|
| 1       | <b>FY 2018/2019</b><br><b>Property, Plant and Equipment</b><br>Lack of title deed for the land at TPCS                                                                                                                                                                                                                                             | TPCSI land had a title deed in the name of the original trustees. The process of transferring to the Government is on-going as evidenced by our numerous communications with Kenya Association of Manufacturers (KAM) as attached.                                                                                                                                                                                                                                  | CEO                                     | <b>Not Resolved</b> |             |
| 2       | <b>Construction of Modern Common Effluent Treatment Plant at Kenya Leather Park - Kenanie, Machakos Country</b><br>Lack of final agreement after the redesigning of the project. It is not possible to ascertain whether the contract price still remains the same as before to avoid future litigations between the EPZA, KLDC and the Contractor | The Contract works for 10MLD and 2.5MLD effluent treatment plants have not changed after relocated to a higher ground. The only component which will slightly reduce is the effluent relocation lines. The contractor has submitted request for change proposal and the same is being reviewed by the State Department of Public Works and the Joint Employer.                                                                                                      | CEO                                     | <b>Not Resolved</b> |             |
| 3       | <b>Management of contract</b><br>Physical verification revealed that the machines have now been moved to a storage container for an indefinite period of time and audit could not establish the value for money of Kshs.100,428,684 invested in the supply of machinery that is yet to be installed at Kariokor and TPCSI Thika.                   | The Installation of machines for TPCSI is ongoing and expected to be complete by FY 2019/2020. However, it is true the machines for Kariokor had been moved to the storage container. However, the Memorandum of Understanding (MOU) between the Council and Nairobi County Government now finalized and signed. (Copy attached)<br><br>The Construction works in the building at Kariokor is almost complete and installation of machines will commence very soon. | CEO                                     | <b>Resolved</b>     |             |
| 4       | The circumstances under which two different firms were engaged for the supply of the same goods before the first set of equipment's could be installed.                                                                                                                                                                                            | It is true that the Council entered into a contract with a local company for the supply, delivery, installation and training of footwear and leather goods manufacturing equipment at a total cost of Kshs. 83,038,539.00 and engaged a different local company (in 2015/2016) at a contract price of Kshs. 17,390,148.00 for supply, delivery, installation and training of footwear and leather goods manufacturing equipment/machines.                           | CEO                                     | <b>Resolved</b>     |             |



| Ref No. | Issue / Observations from Auditor | Management comments                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | Focal Point person to resolve the issue | Status: | Time frame: |
|---------|-----------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------|---------|-------------|
|         |                                   | <p>The tender was evaluated between 18<sup>th</sup> to 21<sup>st</sup> January 2016. During the tender evaluation, the technical specifications /requirements for the machines /equipment were well stated. The bidders were evaluated on their compliance status for each and every equipment stated in the bid documents</p> <p>Minutes for the 1<sup>st</sup> Kenya Leather Development Council Tender committee meeting No. KLCD/TC/1/2015- 2016 held on 26<sup>th</sup> January 2016 noted that three firms qualified to technical evaluation stage. However, Bidder No.2 was the only firm that attached experimental training manual, which was mandatory during submission of the specifications and brochures. The Committee further noted that the same bidder No.2 did not provide the correct brochures and specifications for items No. 8, 9,10,12 and 37 and hence the same were omitted from the list for goods to be procured, therefore they were to be tendered afresh.</p> <p>In respect of the above, KLCD advertised to retender the machines/equipment that did not meet the mandatory specifications as recommended by the Tender Committee meeting on 20<sup>th</sup> May, 2016. The tender evaluation committee recommended bidder No.1, M/S Chunir Holdings to be awarded the contract at their quoted price of Kshs. 17, 390,148.00 being the lowest bidder.</p> |                                         |         |             |



**Dr. Issack M. Noor, PhD**  
Chief Executive Officer

Date: 20/06/2020

**APPENDIX II: PROJECTS IMPLEMENTED BY THE COUNCIL**

The projects which the Council undertook during the year under review were fully funded by the Government of Kenya, through the Ministry of Industry, Trade and Cooperatives.

**I. PROJECT DETAILS**

| S/No. | Project title      | Project Number | Donor | Period/<br>duration | Donor<br>commitment   | Separate<br>donor<br>reporting<br>required<br>(yes/no) | Consolidated in<br>these financial<br>statements<br>(yes/no) |
|-------|--------------------|----------------|-------|---------------------|-----------------------|--------------------------------------------------------|--------------------------------------------------------------|
|       |                    |                |       |                     | <b>Kshs 'Million'</b> |                                                        |                                                              |
| 1     | Kenya Leather Park |                | GoK   | 2017-Date           | 16,465                | No                                                     | yes                                                          |

**II. STATUS OF PROJECTS COMPLETIONS**

| S/No. | Project title      | Total project<br>Cost | Total expended<br>to date | Completion %<br>to date | Budget                | Actual                | Sources |
|-------|--------------------|-----------------------|---------------------------|-------------------------|-----------------------|-----------------------|---------|
|       |                    | <b>Kshs 'Million'</b> | <b>Kshs 'Million'</b>     | <b>Kshs 'Million'</b>   | <b>Kshs 'Million'</b> | <b>Kshs 'Million'</b> |         |
| 1     | Kenya Leather Park | 16,465                | 691                       | 19%                     | 207                   | 26                    | GoK     |
|       |                    |                       |                           |                         |                       |                       |         |
|       | <b>Total</b>       | <b>16,465</b>         | <b>691</b>                | <b>-</b>                | <b>207</b>            | <b>26</b>             |         |



### APPENDIX III: INTER-ENTITY TRANSFERS

The transfers which the Council received during the year under review were all from the National Treasury, through the Ministry of Industry, Trade and Cooperatives.

| Name of the Entity sending the grant  | Amount recognized to Statement of Comprehensive Income | Amount deferred | Amount recognised in capital fund. | Total grant income during the year | Actual Audited Prior Year |
|---------------------------------------|--------------------------------------------------------|-----------------|------------------------------------|------------------------------------|---------------------------|
|                                       |                                                        |                 |                                    | <b>FY 2019/2020</b>                | <b>FY 2018/2019</b>       |
|                                       | <b>Kshs.</b>                                           | <b>Kshs.</b>    | <b>Kshs.</b>                       | <b>Kshs.</b>                       | <b>Kshs.</b>              |
| State Department of Industrialization | 168,869,836                                            | -               | 256,528,253                        | 425,398,089                        | 1,001,807,704             |
|                                       |                                                        |                 |                                    |                                    |                           |
| <b>Total</b>                          | <b>168,869,836</b>                                     | <b>-</b>        | <b>256,528,253</b>                 | <b>425,398,089</b>                 | <b>1,001,807,704</b>      |

**APPENDIX IV: JOURNAL ENTRIES FOR PRIOR YEARS ADJUSTMENT**

| Particulars                                                                                                                                                                                                                          | Debit      | Credit     | Working                                                                                                                                                                                                              |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Statement of Financial Performance</b>                                                                                                                                                                                            |            |            |                                                                                                                                                                                                                      |
| Accumulated Dep/Amortization                                                                                                                                                                                                         | 6,580,387  |            | [Kshs. 49,814,810 less Kshs. 43,234,423]. This is as per Note 11 for FY 2018/19 under Depreciation and amortization. It is also a prior year adjustment under statement of changes in Net Assets                     |
| Revenue Reserve                                                                                                                                                                                                                      |            | 6,580,387  |                                                                                                                                                                                                                      |
| Being correction of errors due to over amortization of prior years as a result of reclassification of Asset from intangible to PPE under furniture,fitting and equipment from 25% to 12.5% for FY 2018/19                            |            |            |                                                                                                                                                                                                                      |
| Accumulated Dep/Amortization                                                                                                                                                                                                         | 7,605,373  |            | [Kshs. 36,426,751 less Kshs. 28,821,378] This is as per Note 11 for FY 2019/20 under Depreciation and amortization. It is to correct errors as a result of re-classificaxion of Assets.                              |
| Revenue Reserve                                                                                                                                                                                                                      |            | 7,605,373  |                                                                                                                                                                                                                      |
| Being correction of errors due to over amortization as a result of reclassification of Asset from intangible to PPE under furniture,fitting and equipment from 25% to 12.5% for FY 2019/20                                           |            |            |                                                                                                                                                                                                                      |
| <b>Statement of Financial Position</b>                                                                                                                                                                                               |            |            |                                                                                                                                                                                                                      |
| Property, Plant & Equipment                                                                                                                                                                                                          | 26,321,549 |            | This is the cost of partitions and carpeting being captured under intangible assets in FY 2016/17.                                                                                                                   |
| Intangible Assets                                                                                                                                                                                                                    |            | 26,321,549 |                                                                                                                                                                                                                      |
| Being correction of errors due to transfer of partitions & carpeting of Kshs. 26,321,549 being recorded under intangible assets in FY 2016/17 as a result of re-classification to PPE under furniture,fitting and equipment at costs |            |            |                                                                                                                                                                                                                      |
| Property, Plant & Equipment                                                                                                                                                                                                          | 6,580,387  |            | [Kshs. 6,610,250 less Kshs. 29,863] This is as per Note 21 for FY 2018/19 under Depreciation and amortization. This is the increase in PPE due to decrease in amortization.                                          |
| Intangible Assets                                                                                                                                                                                                                    |            | 6,580,387  |                                                                                                                                                                                                                      |
| Being correction of errors due to over amortization of prior years as a result of reclassification of Asset from intangible to PPE under furniture,fitting and equipment from 25% to 12.5% for FY 2018/19                            |            |            |                                                                                                                                                                                                                      |
| Property, Plant & Equipment                                                                                                                                                                                                          | 25,891,079 |            | [Kshs. 26,404,830 less Kshs. 29,863] This is as per Note 11 for FY 2018/19 under Depreciation and amortization. This is the increase in PPE due to decrease in amortization.                                         |
| Intangible Assets                                                                                                                                                                                                                    |            | 25,891,079 |                                                                                                                                                                                                                      |
| Being correction of errors due to over amortization as a result of reclassification of Asset from intangible to PPE under furniture,fitting and equipment from 25% to 12.5% for FY 2019/20                                           |            |            |                                                                                                                                                                                                                      |
| Property, Plant & Equipment                                                                                                                                                                                                          | 19,741,162 |            | [Kshs. 347,184,938 less Kshs. 327,443,776] This is as per Note 20 for FY 2018/19 under PPE. This is the increase in NBV for PPE due to decrease in amortization as a result of re-                                   |
| Intangible Assets                                                                                                                                                                                                                    |            | 19,741,162 |                                                                                                                                                                                                                      |
| Being correction of errors due to reclassification of Asset from intangible to PPE under furniture,fitting and equipment on NBV for FY 2018/19                                                                                       |            |            |                                                                                                                                                                                                                      |
| Property, Plant & Equipment                                                                                                                                                                                                          | 53,237,615 |            | [Kshs. 408,767,695 less Kshs. 355,530,080] This is as per Note 20 for FY 2019/20 under PPE. This is the increase in NBV for PPE due to decrease in amortization as a result of re-classification of assets.          |
| Intangible Assets                                                                                                                                                                                                                    |            | 53,237,615 |                                                                                                                                                                                                                      |
| Being correction of errors due to reclassification of Asset from intangible to PPE under furniture,fitting and equipment on NBV for FY 2019/20                                                                                       |            |            |                                                                                                                                                                                                                      |
| <b>Cash flow statement</b>                                                                                                                                                                                                           |            |            |                                                                                                                                                                                                                      |
| Property, Plant & Equipment                                                                                                                                                                                                          | 33,208,367 |            | This is the transfer of additions under partitions and carpeting of Kshs. 34,521,439 less retention not paid of Kshs. 1,131,072 to PPE as additions to furniture, fittings and equipments due to re-classifications. |
| Intangible Assets                                                                                                                                                                                                                    |            | 33,208,367 |                                                                                                                                                                                                                      |
| Being corrections of errors as a result of reclassification of assets from intangible to PPE under additions for furniture,fitting and equipment under cash flow for investment net of retention of Kshs. 1,313,072 for FY 2019/20   |            |            |                                                                                                                                                                                                                      |

**CPA M. Khalif A.**  
Manager, Finance & Accounts

**Dr. Issack M. Noor, PhD**  
Chief Executive Officer